ARIF HABIB LIMITED

REP-300

Pakistan Strategy 2020

Targeting 51,000; Checkmate

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Pakistan Equity Market

Synopsis: Improving Macros to Pump Up Valuations

Total Return

- The KSE-100 Index is expected to provide a return of 25% (USD-based: 21%) in CY20. The index is celebrating an end to Balance of Payments led economic crisis and is thereby returning to its historic mean multiples.

Attractive Valuations

- The KSE-100 Index is trading at a P/E of 7.2x, which is at a 16% discount to historic P/E multiple of 8.6x for the Pakistani stock market.
- The KSE-100 Index is trading at a 48% discount to regional markets compared to historic discount of 34%, showing an upside of 26%.
- In terms of P/BV, the market is trading at 1.1x P/BV, at a 37% discount compared to historic P/BV of 1.8x.

Returning to a Sustainable Macro-economy

- 73% decline in Current Account Deficit during 5MFY20 (Expected FY20 CAD at 1.8% of GDP).
- 3x increase in Total Foreign Investment during 5MFY20.
- Stability in PKR, whereby the Pak Rupee appreciated by 5% since the start of FY20.
- 25% increase in Foreign Exchange Reserves while reduction in forward liabilities by USD 1.2bn.
- Primary surplus of PKR 286bn or 0.6% of GDP during 1QFY20.
- Decline in gov't paper yields whereby 10-Yr PIB yields declined from a high of 13.86% to 10.99%.
- Monetary easing whereby discount rate is expected to decline by 200bps during CY20.

Index Target

- Based on index calculation methodology of earnings growth, justified PER and target price mapping, we view the Dec'20 index target of the KSE-100 index to 51,000 points, portraying an upside of 25%.

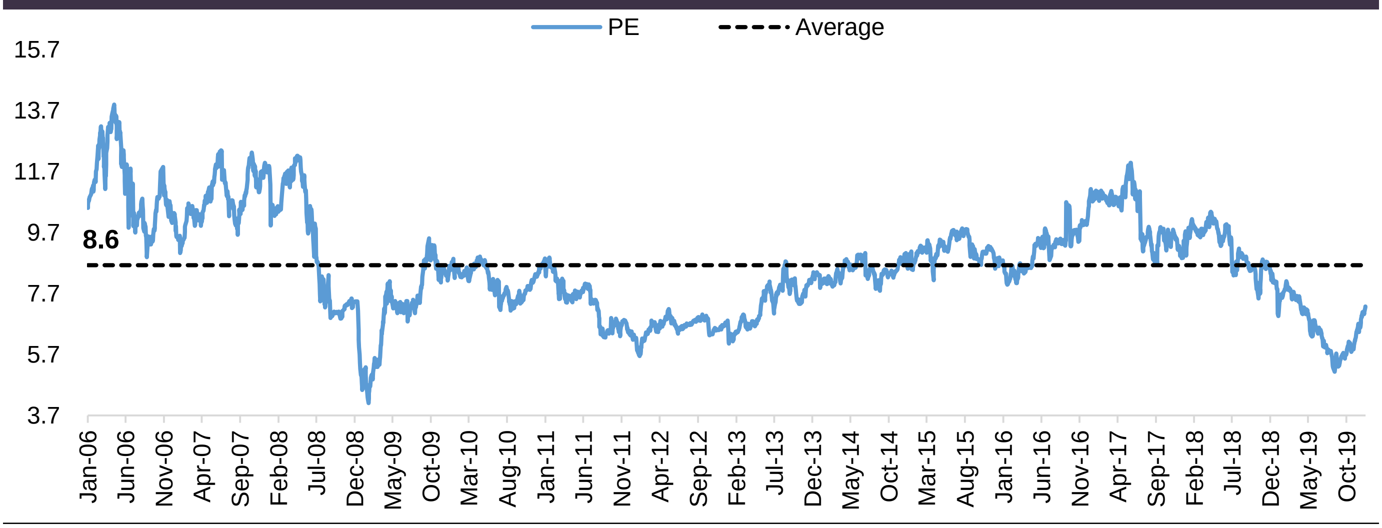
Sectoral Preference

- Banks: Higher Net Interest Income and certainty of profitability momentum.
- E&Ps: Higher realized oil prices due to PKR depreciation.
- Fertilizers: Stable offtake and pricing power translating to better primary margins.
- Power: Resolution of circular debt along with earnings from new coal fired plants to jack up profitability and improve liquidity.

Top Picks

- HBL, MCB, UBL, OGDC, PPL, MARI, ENGRO, FFC, LUCK, ACPL, KOHC, FML, PSO and SNGP.

Exhibit: Historical Price to Earning Multiple of KSE-100 Index



Source (s): Bloomberg, AHL Research

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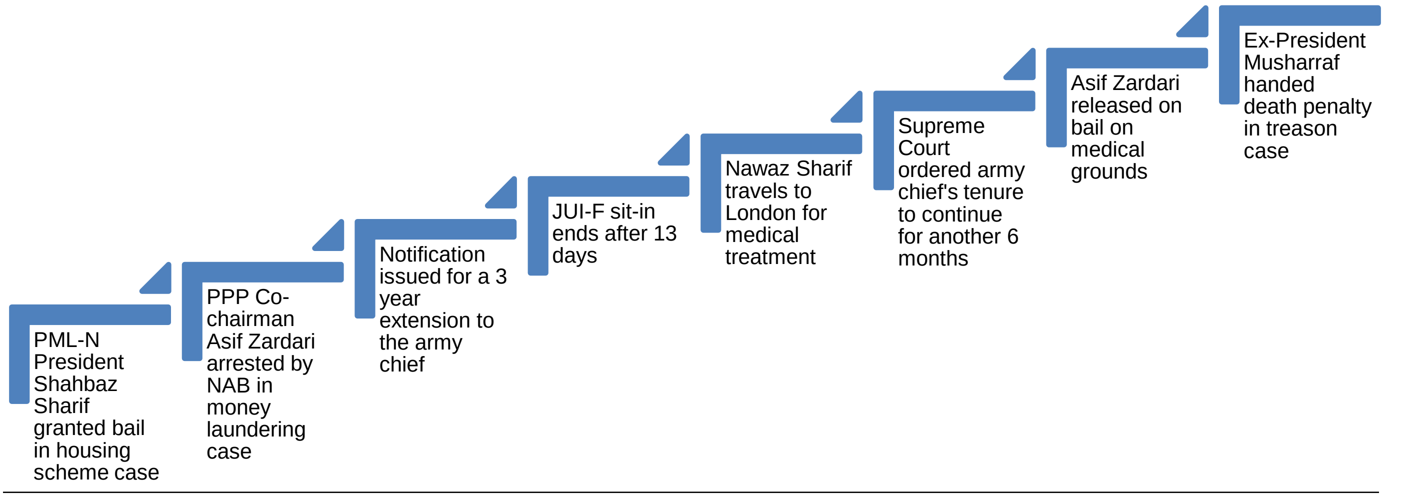
Politics

Government Stability to Bode Well for Market

- A rare feature of the current political set-up that is not a common characteristic of governments (especially in recent times) is the much-needed synergies between the political and military leaderships.
- Whether it is the accountability drive on the domestic front or the reviving of international relations and image-building on the foreign affairs front, synchronized views have helped and will continue to help the stability of the government, we view. The army's keen interest in resolving deeply imbedded obstacles in the business and economic environment is viewed positively by the investor community as well as leading businessmen. However, the government has been haunted by a dilapidated economy characterized by exacerbating inflationary pressure, sharp decline of the PKR-USD parity, and ballooning twin deficits, which have been/are a source of serious pressure. The government was quick to adopt a proactive stance to address the looming challenges (as discussed in detail in the economy section).
- Opposition parties mainly led by the JUI-F attempted to regain their lost political space through an "Azaadi March" followed by a sit-in, which proved to be a non-event as far as investor sentiment was concerned, as the stock market continued its bullish momentum.
- Secondly a fragmented opposition has also created further space for the stability of the PTI-led government. Arrests/physical remands of leading opposition leaders has managed to curtail the opposition's political strength. Former PM and ex-CM Punjab's travel abroad has also added to the vacuum in the opposition. We view the reduced strength of key opposition members to be beneficial for the stability of the government which should bode well for sentiment in the equity markets.

Exhibit: Important Political Events During 2019



Source (s): News reports, AHL Research

Politics

Reviving Stature on the International Arena

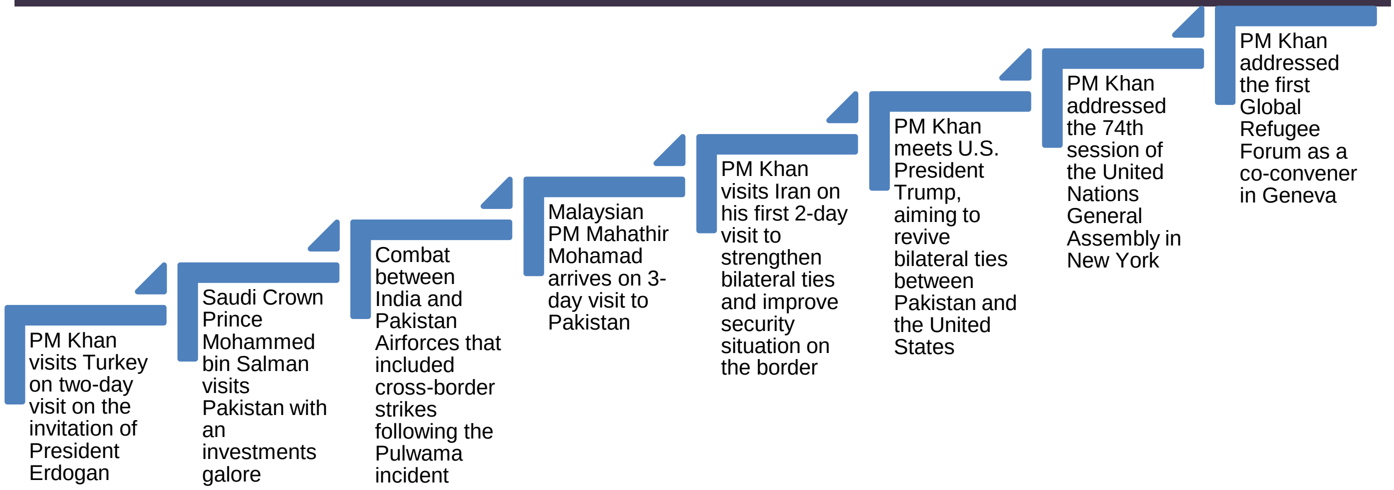
- The PTI-led government has concentrated heavily on serving its energy on the international arena to revive stalled relations and build up rapport in the international community, particularly to shore up support for the Kashmir cause. The UNGA session where PM Khan made a highly popular speech was the zenith of his hard-hitting campaign against Indian government's atrocities and human rights violations in Kashmir. The PM held meetings with numerous heads of states and the diplomatic community to leave no stone unturned in highlighting the Kashmir cause and a popular opinion has been broadly developed that the Kashmir issue was once again brought back to the geopolitical arena. President Trump's repeated offers to mediate (to India's extreme displeasure), even after attending the "Howdy Modi" event and at a joint press conference with the Indian PM, was a diplomatic success for Pakistan. Furthermore, Pakistan's diplomatic stature has been elevated following its recognition as a key force in the US-Taliban peace talks that are set to pave the way for US troops' withdrawal from Afghanistan. Furthermore, President Trump asked PM Khan to also mediate between the US and Iran to deescalate tensions. Although this is work-in-progress, all these developments have served to elevate Pakistan's stature after a prolonged period of isolation.

- Consolidating relations with the US has undoubtedly created slight turbulence in relations with China. Moreover, the government has been under heavy criticism for the snail-paced, and in some cases, stalled progress in CPEC projects. PM Khan made a trip to China especially for the purpose of "reviving" these stalled projects. Pressure was mounting on the government to address the concerns. Better late than never, the government created a CPEC authority for active oversight as well as implementation of projects. It is imperative that Pakistan finds the right balance between Washington and Beijing. Both allies are of utmost and critical importance to Pakistan's strategic role in geopolitics, as well as economic well-being.

- With persisting tension in Kashmir and economic headwinds in India (5% GDP Growth in 1QFY20 – slowest since 2013), we do not expect any major improvement in relations with India. In a wave of rising nationalism and right wing sentiments portrayed by the increasing popularity of the "Hindutva" mindset, PM Modi is faced with grappling challenges on the economic front. Moreover, the recent self-inflicted blow in the form of the "Citizenship Amendment Bill" has only added to the woes of PM Modi. Softening approach towards Pakistan is likely to stimulate anti-government perception, particularly with the economic troubles characterized by weakening consumer sentiment and contracting demand.

- The PTI government has successfully carried the baton of terrific relations with Saudi Arabia. The visit of Crown Prince in Feb'19 was a high-point in the bilateral relations and was met with grandiose fervor across the country and culminated in investment deals worth USD 20bn, which includes a USD 10bn oil refinery in Gwadar. To recall, the Arab nation had earlier provided Pakistan USD 3bn worth of funds for Balance of Payments support alongside a deferred oil payment facility worth USD 3bn.

Exhibit: Pakistan's efforts to revive geopolitical importance gain traction



Source (s): News reports, AHL Research

Economy

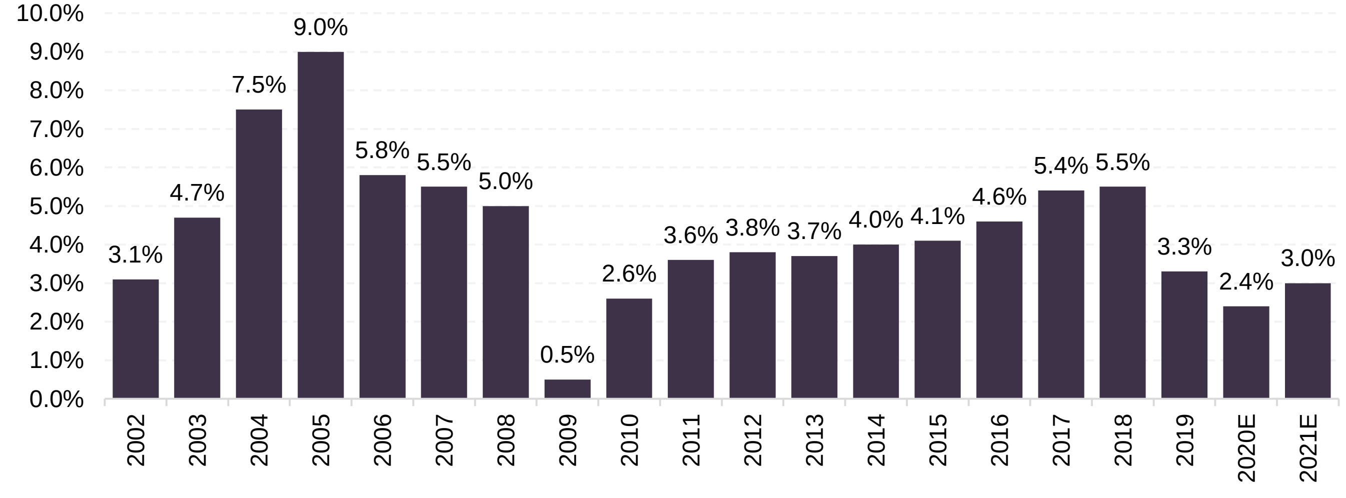
Enroute Sustainable Recovery

Pakistan Economy

Consolidation for Future Sustainable Growth

- Pakistan's GDP growth slowed down during FY19 (3.3% vs. 5.5% in FY18). However, Balance of Payments improved during the year, and continues to improve during FY20.
- Pakistan entered into the IMF program in Jul'19 to counter weak Balance of Payments. With the support of global multilateral lenders, Pakistan is expected to increase its medium-term economic growth.
- 32% PKR depreciation (47% USD appreciation) since Dec'17 has led to lower consumer purchasing power and hence, prompted a compression / moderation in domestic consumption. As household consumption contributes around 82% to Pakistan's GDP, a slowdown has been visible.
- To confine domestic demand and control macroeconomic imbalances like inflation and CAD (Current Account Deficit), the SBP has raised interest rates by 750bps since the beginning of CY18 (inflation for 5MFY20 has averaged at 10.8% compared to 6.1% for the same period last year).
- Overall, a contractionary monetary policy, a weaker exchange rate along with fiscal consolidation measures have caused a slowdown in the economy.
- Some of these measures have provided relief on the economic front which should translate into sustainable growth in the following years.
- A major decline in the CAD (-73% in 5MFY20) and a stable currency since the start of FY20 (after entering into the IMF program) have increased the sustainability of Balance of Payments.
- Declining imports of goods and services (down by 21% during 5MFY20) has played a major role in curtailing the CAD.

Exhibit: Historical and Expected GDP Growth



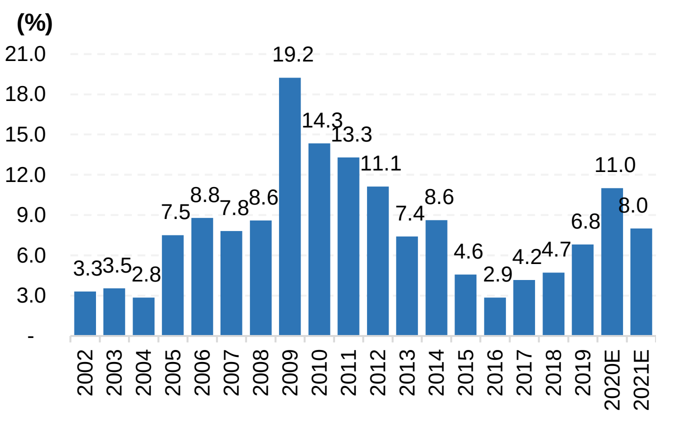
Source (s): Ministry of Finance, AHL Research

Pakistan Economy

Rate Cut Cycle to Initiate in Early 2020

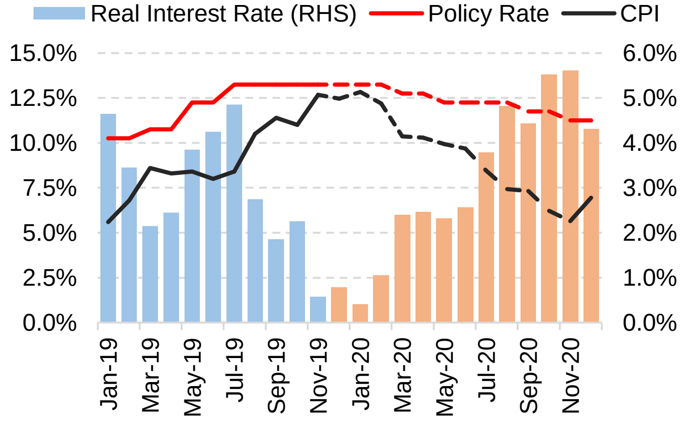
- **Single Digit Inflation Expected Post FY20:** We expect inflation to continue remaining elevated during FY20, at an average of 11.0% while for CY20 it is projected to clock-in at 9.5%. During the year, the incumbent government rebased CPI from 2007-08 to 2015-16 which increased inflation of FY18 by 80bps to average at 4.7% compared to 3.9% on previous base of 2007-08, while it decreased inflation for FY19 by 50bps to 6.8% compared to 7.3%. Pertinently, reduction in weight of key group heads with higher inflation lowers our inflationary readings for FY20. Despite the fact that currency adjustment had majorly been carried out along with one time shock absorption of change in utility (gas and electricity) prices in the prior year as well as higher base effect post recent rebasing, CPI reading remained elevated in FY20. This was due to seasonal factor as prices of perishable food items skyrocketed given supply constraints, extended monsoon season which affected major crops and ban in trade with India resulting in insufficient supply throughout the country.
- **Much Needed Rate Cut Era to Begin Soon:** During CY19, the State bank of Pakistan (SBP) adopted a proactive stance and increased the Policy Rate by 325bps to 13.25% from 10.00% in CY18. We believe that monetary tightening will be short lived as the real interest rate will remain positive and rate cut cycle is likely to start from Mar'20 onwards where we expect SBP to cut 200bps in CY20.
- **SBP's Outlook on Inflation:** Despite rebasing of base year of inflation, State Bank expects inflation to settle in the range of 11-12% amid higher than expected surge in utility prices and rise in food inflation on account of temporary supply disruption. If the recent trend persists, inflation expectations could be affected. However, the SBP sees this recent uptick as temporary and owing to contracting aggregate demand and appreciation of currency, expects inflationary pressure to recede during 2HFY20. Current monetary policy according to the SBP is on track to pull down inflation to 5-7% over the next 24 months.

Exhibit: Historical and Expected Inflation



Source (s): PBS, AHL Research

Exhibit: Historical and Expected Real Interest Rate



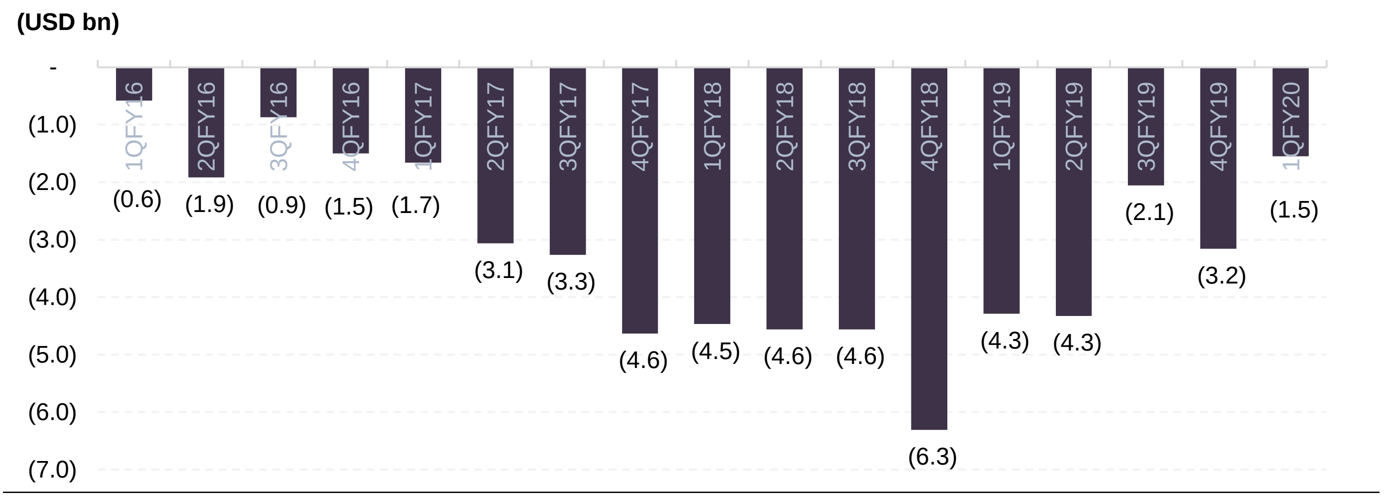
Source (s): PBS, SBP, AHL Research

Pakistan Economy

Improving Balance of Payments – CAD down by 73% YoY

- Pakistan's Balance of Payments recorded a significant improvement during 5MFY20.
- Current Account Deficit for 5MFY20 observed a decline of 73% YoY to reach USD 1.82bn, or 1.6% of GDP from USD 6.7bn or 5.3% of GDP for the same period last year.
- For the month of Oct'19, the CA Balance posted a surplus of USD 70mn. This was the first surplus witnessed after 49 consecutive months.
- Major improvement in 5MFY20 as well as monthly basis came on account of declining imports, reflecting in improved trade deficit. Imports declined by 21% / 13% in 5MFY20 / Nov'19 on a YoY basis.
- Imports have declined as a cumulative result of PKR depreciation, imposition of addition regulatory duties, documentation drive of the government and non-tariff barriers like requirement of halal food certificate for food imports.

Exhibit: Quarterly Current Account Deficit has declined to USD 1.5bn from USD 6.3bn during 4QFY18



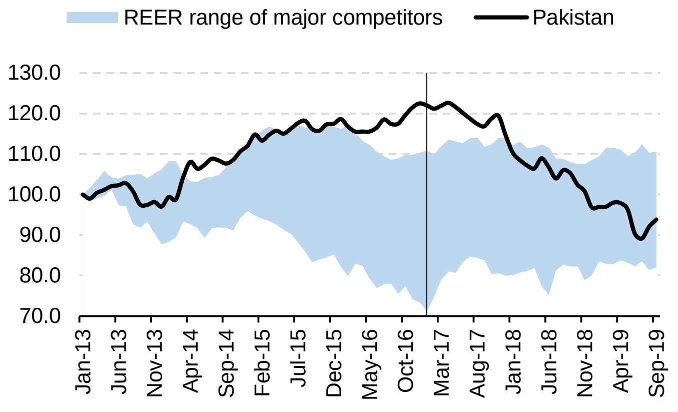
Source: SBP, AHL Research

Pakistan Economy

Decline in REER has Improved Export Competitiveness…

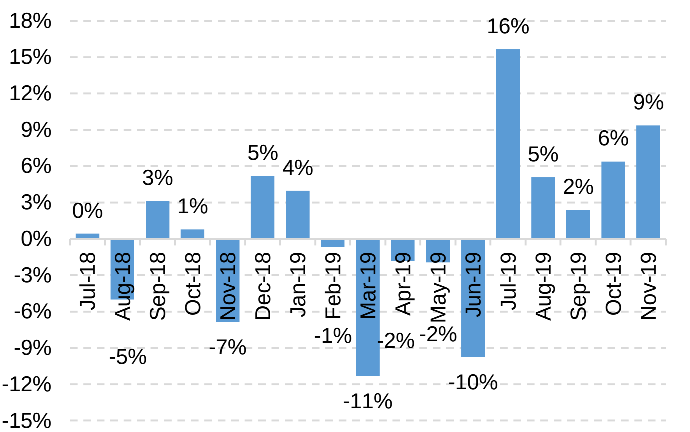
- Exports are expected to continue their improvement as Pakistan's REER (Real Effective Exchange Rate) has become significantly more competitive compared to its competitors. This is also evident in YoY increase in monthly exports since the start of FY20. In addition, as the currency depreciated, it is also evident that though the export proceeds did not increase proportionately, export volumes did increase as REER became more competitive (see exhibit below).

Exhibit: Real Effective Exchange Rate



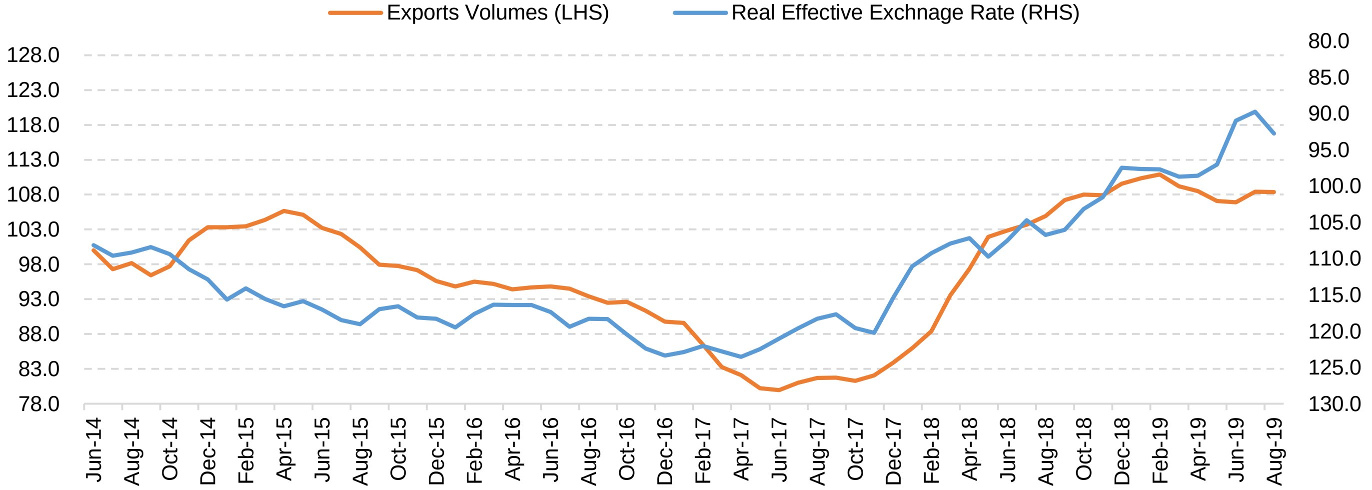
Source (s): SBP, AHL Research

Exhibit: Increase in Exports Volume is Evident in FY20



Source (s): PBS, AHL Research

Exhibit: Historical Trend of Exports Volume and Real Effective Exchange Rate

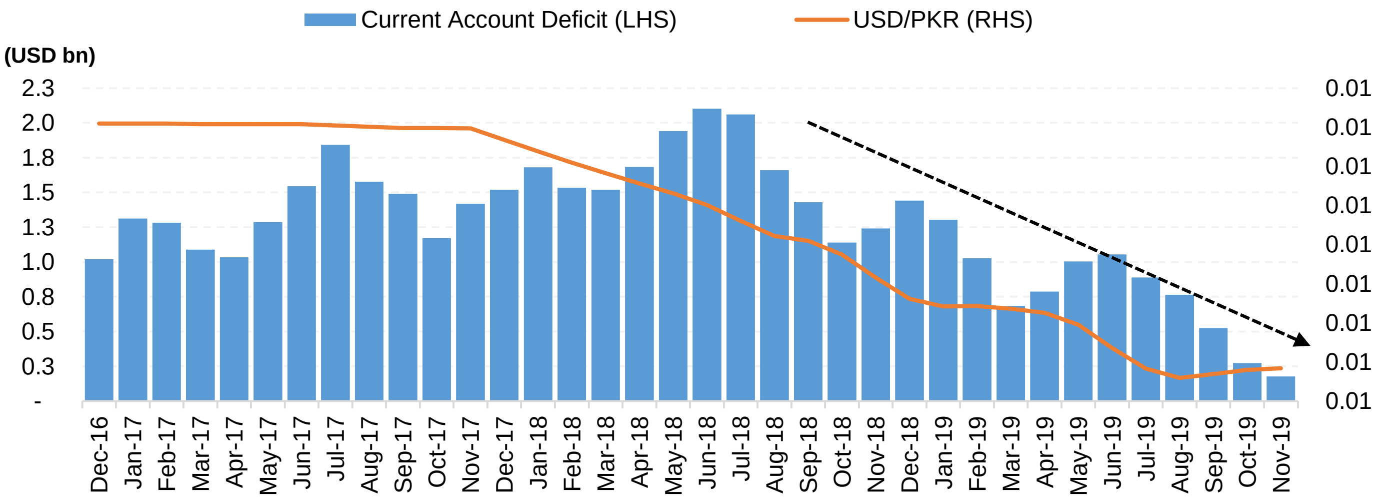


Source (s): PBS, SBP, AHL Research

… While Stabilizing Balance of Payments

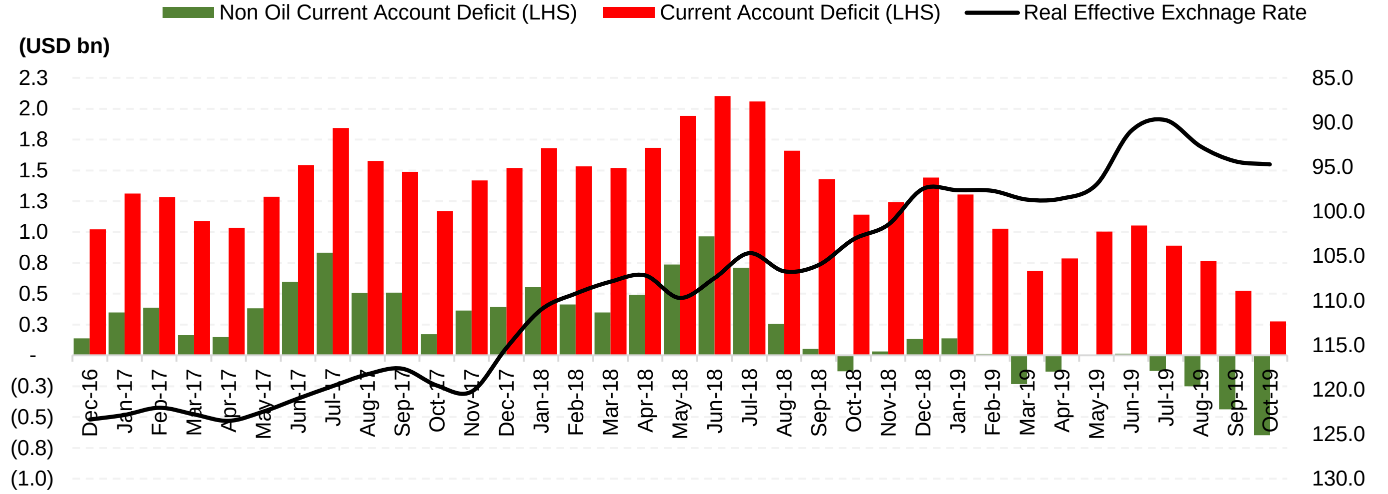
- With the depreciation of PKR against USD, the Current Account Balance improved and eventually turned into a surplus during Oct'19. On the other hand, the non-oil Current Account Balance turned into a surplus since Jul'19, while the overall Current Account generated a surplus in Oct'19. The reason for evaluating non-oil Current Account surplus is that demand for oil is more or less inelastic and does not correspond to PKR depreciation or monetary tightening. This shows the impact of adjustment.

Exhibit: Historical Trend of CAD (3MMA) and Exchange Rate (3MMA)



Source (s): SBP, AHL Research, 3MMA = 3 Month Moving Average

Exhibit: Historical Trend of Non Oil CAD (3MMA) and Real Effective Exchange Rate



Source (s): SBP, AHL Research, 3MMA = 3 Month Moving Average

Pakistan Economy

Foreign Investment Surges with Improving Confidence

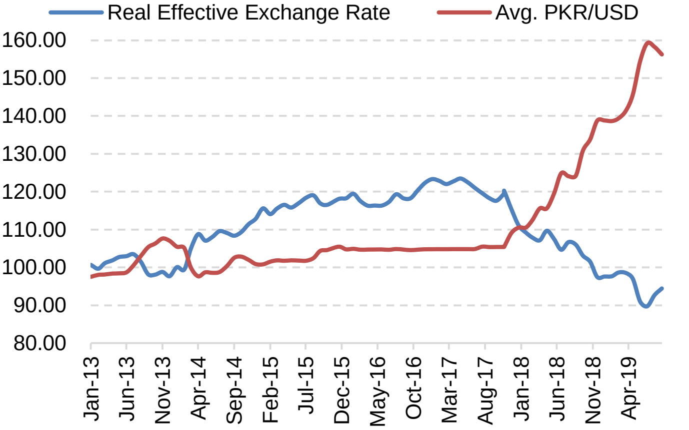
- PKR has appreciated by 3.0% since Jun'19, after depreciating by 32.1% since Dec'17.
- REER went below 100 in Dec'18 after remaining higher for a period of 65 months. A REER below 100 suggests that the currency is competitive compared to Pakistan's trading partners. At present, the REER hovers at 95.
- Foreign Currency Reserves held by SBP have increased by USD 3.6bn since June end i.e. after entering the IMF program.
- Pakistan has retired short swaps amounting USD 1.95bn since the start of Jul'19. This has also helped currency parity achieve stability.
- Moreover, the country has attracted USD 1.2bn of foreign investment in its treasury bills, which is the highest in the industry and is showing the confidence of foreign investors in its currency parity and economic reforms.
- Foreign Direct Investment has surged by 78% YoY during 5MFY20 to USD 850mn, showing confidence of foreign investors in Pakistan's economy. Norway remained the largest investor in Pakistan (Telenor's license payment) whereas, China remained the second largest investor.

Exhibit: Foreign Direct Investment went up by 78% during 5MFY20

USD mn	Nov-19	Nov-18	YoY	5MFY20	5MFY19	YoY
Inflow	249	392	-37%	1,176	1,446	-19%
Outflow	48	107	-55%	326	969	-66%
Net	***200***	***285***	***-30%***	***850***	***477***	***78%***

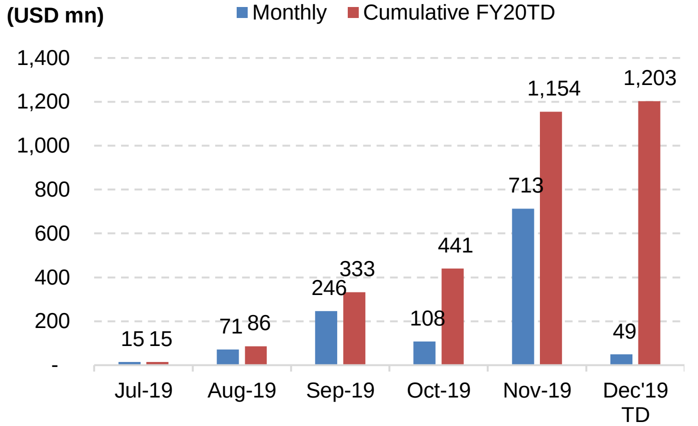
Source (s): SBP, AHL Research

Exhibit: REER and PKR/USD



Source (s): SBP, AHL Research

Exhibit: Net Foreign Investment in T.Bills has crossed 1.2bn



Source (s): SBP, AHL Research

Pakistan Economy

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FY20 Current Account Deficit to Decline by 64% YoY

- The impact of adjustment in exchange rate and prior overvaluation of PKR (REER down to 94.7 from a high of 123.5) is now visible in the Current Account Balance, which entered into surplus on monthly basis in Oct'19 and continues to remain muted (CAD at USD 319mn in Nov'19) from a high of USD 2bn per month.
- Decline in imports (21% in 5MFY20) has played a major role in stabilization of Balance of Payments.
- The government's drive or documentation has also played a major role in curtailing imports. In addition, certain non-tariff barriers on food imports like requirement of halal certification etc. has also helped subdue imports.
- This shows that PKR depreciation has helped curtail imports and reduced uncertainty regarding Balance of Payments.
- Weak economic growth (GDP growth declined from 5.5% during FY18 to 3.3% during FY19), documentation of economy (implementation of condition for CNIC), higher interest rates (+750bps since Jan'18) and weak exchange rate parity (PKR down by 32% since Dec'17) have helped curtail imports and control the Current Account Deficit. Consequently, as we transcend past the consolidation phase, the Current Account Deficit is expected to be restricted at USD 5.0bn during FY20.

Exhibit: Historical and Expected Current Account Deficit

(USD mn)	FY15A	FY16A	FY17A	FY18A	FY19A	YoY	FY20F	YoY
Current Account Balance	**-2,795**	**-4,867**	**-12,621**	**-19,897**	**-13,830**	**-30%**	**-5,020**	**-64%**
Exports of Goods	24,090	21,972	22,003	24,768	24,251	-2%	25,949	7%
Imports of Goods	41,357	41,255	48,683	56,592	52,768	-7%	47,000	-11%
Trade Balance (Goods)	**-17,267**	**-19,283**	**-26,680**	**-31,824**	**-28,517**	**-10%**	**-21,051**	**-26%**
Exports of Services	5,878	5,459	5,555	5,288	5,260	-1%	5,000	-5%
Imports of Services	8,848	8,865	9,894	11,356	9,527	-16%	8,000	-16%
Trade Balance (Services)	**-2,970**	**-3,406**	**-4,339**	**-6,068**	**-4,267**	**-30%**	**-3,000**	**-30%**
Trade Balance (Total)	**-20,237**	**-22,689**	**-31,019**	**-37,892**	**-32,784**	-13%	**-24,051**	-27%
Primary Income Balance	**-4,599**	**-5,347**	**-5,048**	**-5,484**	**-5,709**	**4%**	**-6,643**	**16%**
Workers' Remittances	18,721	19,917	19,351	19,914	21,838	10%	22,538	3%
Secondary Income Balance	**22,041**	**23,169**	**23,446**	**23,479**	**24,663**	**5%**	**25,674**	**4%**

Source (s): SBP, AHL Research

FATF – Grey List Status Maintained, Blacklisting Highly Improbable

- In Oct'19, the FATF (Financial Action Task Force) handed out another extension to Pakistan, maintaining its status on the grey list until Feb'20. While significant progress has been made as identified by the Asia Pacific Group (APG) - a regional affiliate body for the Asia-Pacific region of the FATF – certain loopholes still exist such as the nonexistence of a formal framework to combat money laundering and eliminate terrorist financing.
- When it comes to ratings, Pakistan was assigned low on nine out of ten (9/10) Effectiveness Ratings of the APG and moderate on one. Whereas the APG also acknowledged that with respect to Technical Compliance Ratings, Pakistan was only fully compliant with one recommendation, largely compliant with nine (9), partially compliant with twenty-six (26) and non-compliant with four (4) recommendations of the FATF.
- To recall, Pakistan was placed on FATF's Grey List in Jun'18 whereby it was found non-compliant with recommendations of the FATF which targeted areas of risk assessment, national cooperation, targeted sanctions, preventative measures, due diligence, internal and third party controls, law enforcement, regulation and supervision for money laundering and terror financing, amongst others. Thereafter, the incumbent government made a commitment to combat such risks to the financial system of the country and adhere to 40 key recommendations of the FATF.
- We view that the government has been proactive in addressing the major concerns of the FATF in an attempt to combat money laundering and terrorist financing. For example, the National Risk Assessment Framework 2019 has included various elements that were not included in the 2017 document. Recently the Governor SBP spoke of the freezing of numerous bank accounts by the SBP. We view that blacklisting is a highly improbable scenario and Pakistan should be able to get another extension in Feb'20.

Pakistan Economy

IMF Agreement

- On July 3, 2019, the Executive Board of the IMF program approved a 39-month arrangement under the Extended Fund Facility (EFF) for an amount of USD 6 billion to support the Government of Pakistan's economic reform program. Major highlights of the program include:
    - Sustainable and balanced growth.
    - Increased per capita income.
    - Fiscal consolidation to reduce public debt, expansion of social spending and safety net for the most vulnerable segments of the society.
- Adoption of Budget FY20 is an important step towards this objective
    - Multi year revenue mobilization strategy to include broadening of tax base and raising tax revenue in an equitable manner.
    - Strong commitment from provinces to support consolidation effort, effective public financial management and improving the quality and efficiency of public spending.
    - Significant increase in resources allocated to key social assistance programs, supporting measures for economic empowerment of women and investment in poverty stricken areas.
- A flexible and market determined exchange rate
    - This will help restore competitiveness, rebuild official reserves and provide a buffer against external shocks.
- Adequate tight monetary policy to correct imbalances.
- Strengthening of SBP's autonomy to deliver on its mandate of price and financial stability.
- Elimination of financing of fiscal deficit by the SBP.
- The fund's immediate disbursement was USD 1 billion, with another ~USD 453mn expected soon.
- The approval has unlocked ~USD 38 billion from Pakistan's international partners over the program period.

Exhibit: Performance Criteria

Performance Criteria	Target Sep'19 End	Actual Sep-19 End	Current	Target Dec'19 End	Target Mar'20 End	Target Jun'20 End
Floor on net international reserves of the SBP (USD mn)	-18,478	-16,000	-13,023	-16,311	-12,844	-10,790
Ceiling on net domestic assets of the SBP (PKR bn)	8,911	6,611	6,577	8,800	8,445	8,727
Ceiling on SBP's stock of net foreign currency swaps/forward position (USD mn)	8,055	6,770	5,022	8,055	8,055	7,555
Ceiling on general government primary budget deficit (PKR bn)	102	286	na	145	193	276
Ceiling on net government budgetary borrowing from the SBP (PKR bn)	7,756	5,105	6,829	7,756	7,756	7,187
Ceiling on the amount of government guarantees (PKR bn)	1,611	1,611	1,611	1,611	1,611	1,611

Source (s): IMF Staff Report, AHL Research

Pakistan Economy

Economic and Financial Policies

Background

- Pakistan faced a challenging macroeconomic situation including slowdown in growth, unsustainable fiscal and Balance of Payment deficits despite implementation of several stabilization programs.
- The current juncture called for coordinated decisive measures to stabilize the economy and lay the foundation for robust and balanced growth.

Fiscal Policy – Fiscal Consolidation to Reduce Public Debt and Build Resistance

- The key pillar of Pakistan's fiscal strategy is to generate revenue resources to support human capital development while ensuring debt sustainability.
  - Pakistan aims to increase its tax to GDP ratio by 4-5%, to comply with FRDLA (Fiscal Responsibility and Debt Limitation Act) while creating fiscal space to increase spending on key sectors like health, education, infrastructure without crowding out private sector. To put in perspective, the target revenue collection is estimated to increase from present PKR 5.5trn during FY20 to PKR 10.5trn by FY24.
  - The recent adoption of budget will bring a primary fiscal adjustment on 1.2% of GDP by increasing revenue from various means while allocating additional social spending to protect the poor.
  - Fiscal consolidation and revenue expansion by provinces will be a key component of Pakistan's fiscal strategy.
  - To rebalance inter-governmental relationships in the context of NFC which includes progress on
    - Passing on additional responsibilities from federal to provincial governments including additional contributions for higher education, health, social protection, agricultural subsidies and regional public infrastructure.
    - Reducing the scope of divisible pool in the context of the ongoing NFC award.
    - Increase in tax collection efforts by provinces focusing on sales tax on services, property tax and agricultural income tax.

Exhibit: Macroeconomic forecasts by the IMF

		FY19 A	FY20 F	FY21 F	FY22 F	FY23 F	FY24 F
Real							
GDP Growth	%	3.3	2.4	3.0	4.5	5.0	5.0
GDP	USD bn	283.9	257.7	275.0	294.4	311.8	338.9
Prices							
CPI Inflation	%	7.3	13.0	8.3	6.0	5.0	5.0
Discount Rate	%	12.8	13.8	12.5	12.0	11.5	11.0
External Sector							
Exports	USD bn	24.3	26.8	29.5	31.7	34.1	36.7
Imports	USD bn	52.8	51.7	53.9	56.8	59.8	63.5
Trade Deficit	USD bn	28.5	24.9	24.5	25.1	25.7	26.8
Remittances	USD bn	21.8	22.5	23.6	24.7	25.9	27.0
FX Reserves	USD bn	7.3	11.2	14.5	18.9	24.9	28.1
Exchange Rate	USD bn	135.4	172.5	182.8	190.8	199.2	202.1
PKR Depreciation	%	19.1	21.5	5.7	4.2	4.2	1.5
% of GDP							
Current Account Deficit	%	4.8	2.6	2.0	1.8	1.7	1.8
Fiscal Deficit	%	7.0	7.3	5.4	3.8	2.7	2.4
External Debt	%	26.5	32.0	31.6	30.1	28.9	26.7
Domestic Debt	%	48.4	44.9	42.8	40.7	38.3	36.9

Source (s): IMF Staff Report, AHL Research

Pakistan Economy

Monetary and Exchange Rate Policies

Flexible and Market determined Exchange Rate to Restore Competitiveness

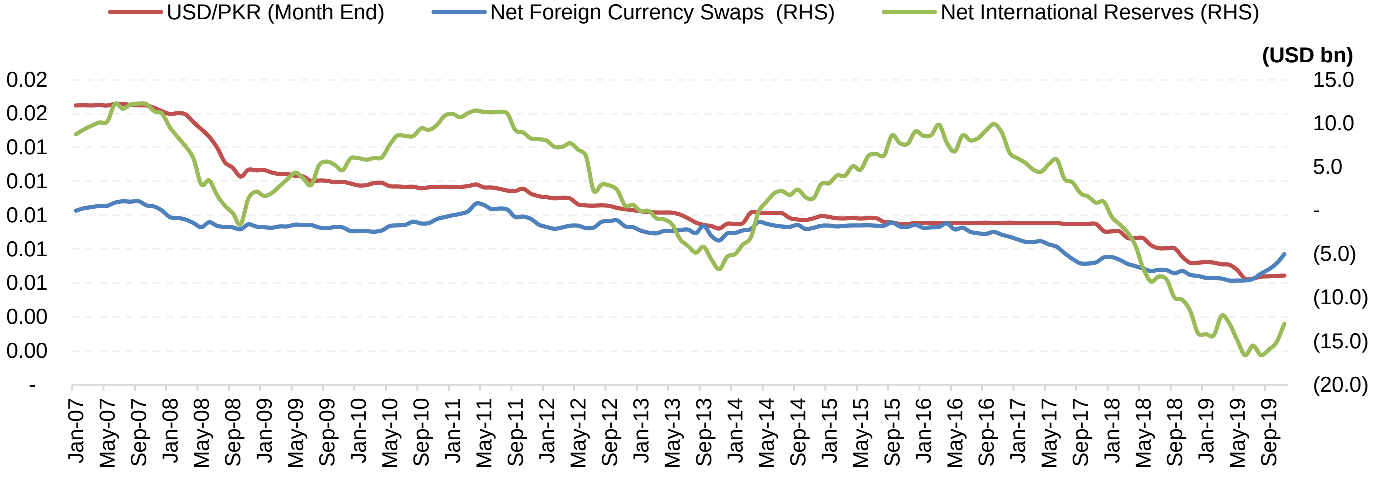
- Monetary Policy will be focused on gradually reducing and keeping inflation low and stable.
- Maintaining a flexible market determined exchange rate will
  - Modernize the foreign exchange regime and functioning of financial markets.
  - Contribute to better allocation of resources in the economy.
  - Help reduce accumulated external imbalances.
  - Provide a buffer against shocks.
  - Help rebuild foreign exchange reserves.

Monetary Policy Would Remain Tight to Shore Up Confidence and Reach the Inflation Objective

- Keep the real policy rate positive to control inflation in the future.
- Proactive policy response to control inflation from exogenous shocks while keeping monetary aggregates under control.
- Eliminate deficit financing from SBP, reduce SBP stock of net government borrowing gradually over time. Sell stock of SBP borrowing in the form of tradeable instruments of various maturities.
- Amendment in SBP Act to strengthen its autonomy, governance and mandate.

- Strengthen the AML/CFT framework in line with international standards to support the country's exit from FATF list of jurisdictions with serious deficiencies.

Exhibit: Improving External Finances



Source (s): SBP, AHL Research

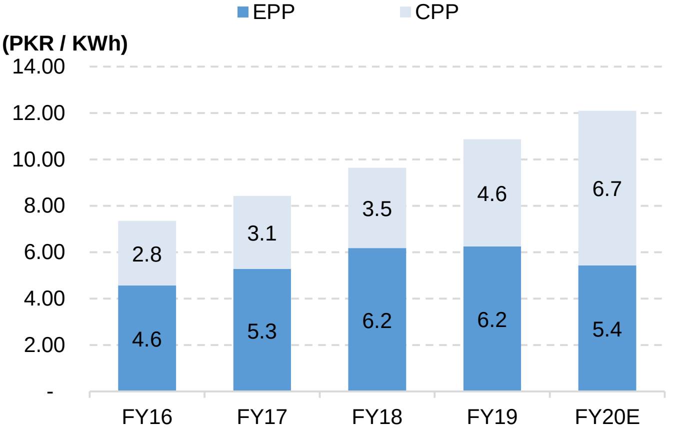
ARIF HABIB LIMITED

Energy Sector Reforms

Energy Sector Reforms to Eliminate Quasi Fiscal Losses and Encourage Investment

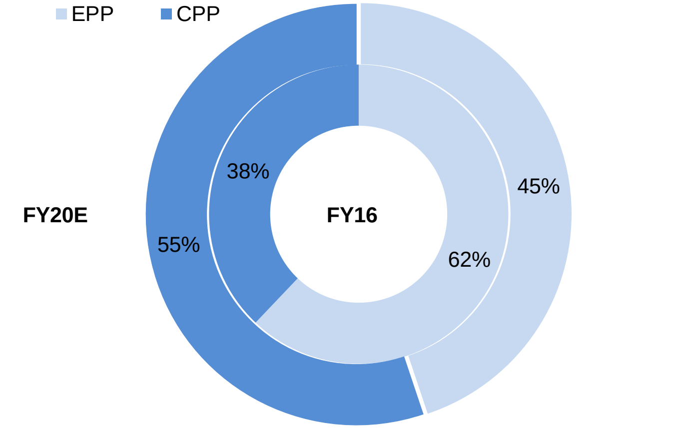
- Pakistan is launching comprehensive energy sector reforms to address long standing inefficiencies in the power sector.
  - Stock of circular debt stands at PKR 1.6trn, in addition to PKR 806bn parked in PHPL.
  - PKR 350bn worth of circular debt was accumulated in FY19.
- Steps to ensure a successful reform
  - Adjusting tariffs in line with regulator's (NEPRA) determination. Electricity tariff schedule as determined by the regulator was notified by end Sep'19.
  - Develop a strategy to address circular debt in the power sector
    - Prepare a comprehensive plan to reduce circular debt in collaboration with international partners with quarterly targets for losses, collection and accumulation of arrears.
  - Ensure regular and timely notifications for end-consumer tariffs in the electricity sector
    - Changes in the NEPRA Act to
      - Ensure full automaticity of the quarterly tariff adjustments.
      - Eliminate the gap between regular annual tariff determination and notification by the government.
- Following measures are being taken to improve the performance of the gas sector
  - Adoption of the FY20 gas tariff adjustment as proposed by the regulator (OGRA).
  - Reduction in UFG losses from present level of 13%.
  - Invite private sector investment in the gas sector
    - Unbundle of SSGC and SNGPL by integrating the transmission segment and creating multiple DISCOS.
    - Review petroleum policy to incentivize domestic exploration of oil and gas.
    - Operationalize third party access rules enabling customers to buy gas directly from the terminal.

Exhibit: CPP* to Reach at PKR 6.67/KWh



Source (s): CPPA (G), AHL Research, * Capacity Purchase Price

Exhibit: CPP will be 55% of Total Tariff* by 2020



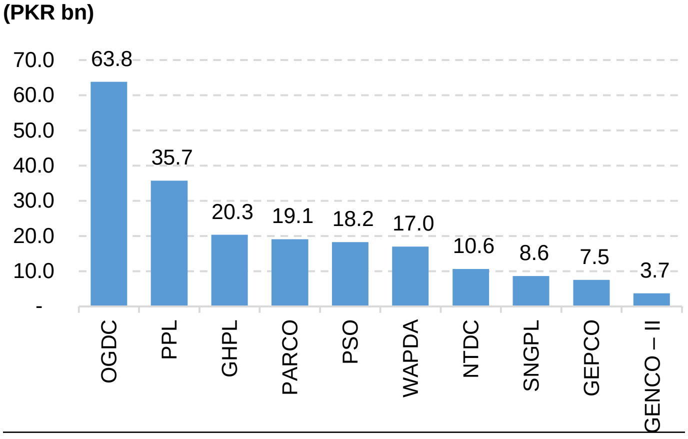
Source (s): CPPA (G), AHL Research, *Generation Stage

Committed to improve SOEs performance

Committed to Improve SOEs Performance Via Enhancement of Productivity

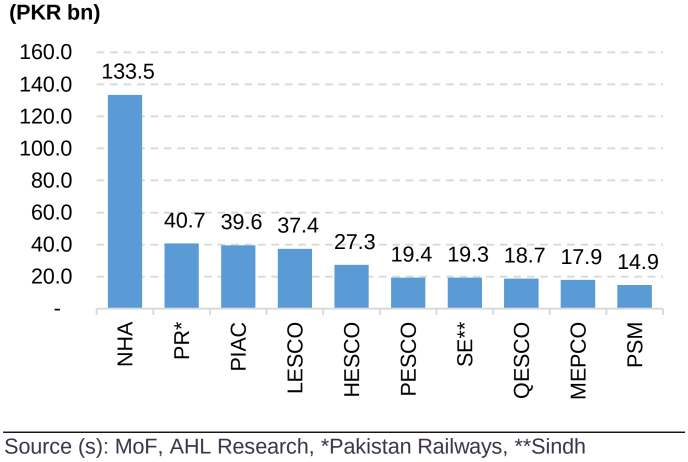
- Privatization of 2 RLNG fired power plants, SME Bank and First Women Bank, Jinnah Convention Centre and Services International Hotel.
- Strengthen monitoring of SOEs.
- Increase SOE transparency
  - Audits of PSM and PIA by international reputed auditors.
- Establish a holding company to manage SOEs.
- The government's efforts to minimize losses of SOE's are visible. In particular, the government wants to turnaround SOE's like PSM and PIA. For PSM, the government is planning to engage a strategic partner while for PIA, new management is being hired and empowered to improve operational efficiency.

Exhibit: Top Ten Profit Making Companies (SOEs)



Source (s): MoF, AHL Research

Exhibit: Top Ten Loss Making Companies (SOEs)



Source (s): MoF, AHL Research, *Pakistan Railways, **Sindh Engineering

Outlook: Macroeconomic Stability Achieved, Looking for growth

BOP/CAD Improvement to Continue, Reserves to Improve

- Going forward, we believe the situation on the Balance of Payments front would continue to improve as narrowing CAD controls outflow of foreign exchange while planned inflows to retire predetermined obligations along with Foreign portfolio investment, strengthens foreign exchange reserves. We believe foreign exchange reserves would continue to increase and the SBP reserves will cross USD 11bn by Jun'20 and USD 13bn by Dec'20.

Foreign Direct Investment and Exports are Key for Future Economic Growth

- The economic growth is expected to improve from FY21, whereby results of the government's steps such as supporting exports, agriculture, documentation, import substitution, housing are expected to yield results. Elimination of under-invoicing and smuggling is expected to support domestic industry and will result in foreign and domestic investment into import replacement sectors i.e. Electronics, Food Processing, Steel, Poultry, Tyre Manufacturing, Auto Assembling and Dairy Processing.
- Inflation is expected to come down to a single digit from Apr'20 onwards as the impact of currency depreciation as well as increase in utility prices dilutes. However, prices of gas are expected to rise by 15-135% as demanded by SNGPL, therefore, slight inflationary pressure may persist.
- We believe Interest rates would start declining from Mar'20 as inflation is expected to recede to an average of 10% for 4QFY20.
- In order to retain export competitiveness, we expect exchange rate to depreciate to PKR 157.5 by Jun'20 and to PKR 160/USD by Dec'20.

Exhibit: Key Economic Indicators

	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19A	FY20F	FY21F
Real									
GDP	3.7%	4.0%	4.1%	4.6%	5.4%	5.5%	3.3%	3.8%	3.8%
GDP (USD bn)	236.4	246.7	270.0	283.7	303.8	314.6	283.9	275.4	299.0
Prices									
CPI (% YoY)	7.4%	8.6%	4.6%	2.9%	4.2%	3.9%	7.3%	11.0%	8.0%
Discount Rate - Period end	9.00%	10.00%	7.00%	6.25%	6.25%	7.00%	12.75%	12.75%	11.00%
External Sector (USD bn)									
Exports	24.8	25.1	24.1	22.0	22.0	24.8	24.3	25.9	26.8
Imports	40.2	41.7	41.4	41.3	48.7	56.6	52.8	47.0	51.7
Trade Deficit	15.4	16.6	17.3	19.3	26.7	31.8	28.5	21.1	24.9
Remittances	13.9	15.8	18.7	19.9	19.4	19.9	21.8	22.5	22.5
FX Reserves (Period End)	11.0	14.1	18.7	23.1	21.4	16.4	14.5	18.0	20.0
Exchange Rate (Period End)	99.7	98.8	101.8	104.8	104.9	121.5	160.1	157.5	167.1
PKR Depreciation (%)	(5.1)	0.9	(3.0)	(2.8)	(0.1)	(13.7)	(24.1)	1.6	(5.7)
(% of GDP)									
Current Account Deficit	1.1%	1.3%	1.0%	1.7%	4.1%	6.3%	4.9%	1.8%	1.8%
Trade Deficit	6.5%	6.7%	6.4%	6.8%	8.8%	10.1%	10.0%	7.6%	8.3%
Fiscal Deficit	8.0%	5.5%	5.3%	4.6%	5.8%	6.6%	8.9%	7.1%	5.1%
External Debt	25.8%	26.5%	24.1%	26.1%	27.5%	30.3%	37.4%	39.9%	37.9%
Domestic Debt	40.4%	44.8%	44.3%	45.8%	46.6%	42.9%	45.6%	54.2%	53.3%

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

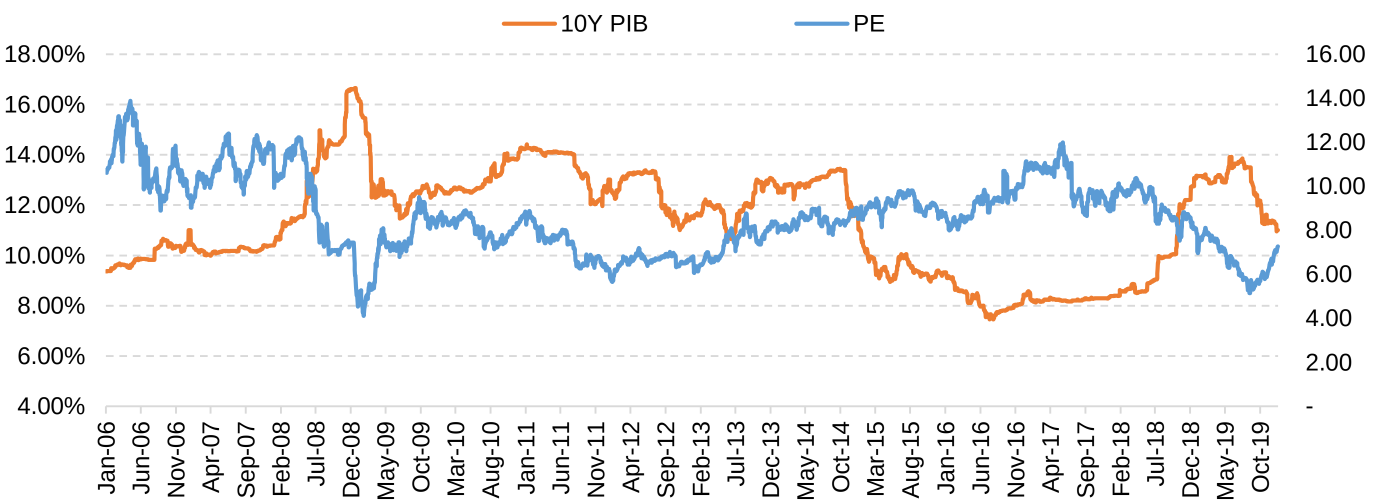
Equity Market

Back on its Feet

Economic Headwinds Weighed in on Index

- Barring the last couple of months, CY19 was nothing short of a horror story for the equity market with a dominating bearish trend. During the year, the KSE-100 index crashed to a 5-Yr low of 28,765pts on 16th Aug'19, which was a 22% contraction since Dec'18 and a 31% decline on a YoY basis.
- The despondency in the investment climate was encapsulated by the PTI gov't severely struggling to grapple with the economic headwinds that it was hammered with immediately upon taking charge. Although the external account had begun showing signs of moderation, during 2QCY19, the CAD had widened by 54% QoQ as imports had ballooned 5% while exports remained stagnant. Total FX reserves hovered at USD 14.5bn at the end of FY19 (down by 12% YoY) which consequently stressed the currency with the PKR/USD parity rocketing to a high of 164 on 27th Jun (26% YoY depreciation). On the fiscal front, the budget deficit had clocked-in at a 28-Yr high of 8.9% of GDP for FY19 as total expenditure had ballooned 11% YoY with domestic debt servicing increasing by a mammoth 38% YoY. Inflationary pressure in the economy was exacerbating following the multiple rounds of depreciation and other cost-push factors, settling at 8% in Jun'19 compared to 5.7% in Jun'18. Monetary tightening continued until Jul'19 with interest rates increasing by 300 bps since Jan'19 as the SBP's efforts to arrest aggregate demand continued. Higher interest rates were a double edged sword – compressing cash cycles, creating liquidity constraints for companies on one side, whilst making fixed income instruments attractive leading to redemptions from equity portfolios in mutual funds on the other. All the aforementioned economic troubles led to subdued economic activity with GDP growth settling at 3.3% for FY19 (FY18: 5.5%).
- Furthermore, stringent conditions attached with the USD 6bn IMF bailout package such as 40% higher FBR tax revenue target and cap on sovereign guarantees were sources of further pessimism. Meanwhile, tension on the border with India following the air combat in Feb'19 had its own adverse effects on the overall sentiment.

Exhibit: Historical Trend of Price to Earning and 10Y PIB



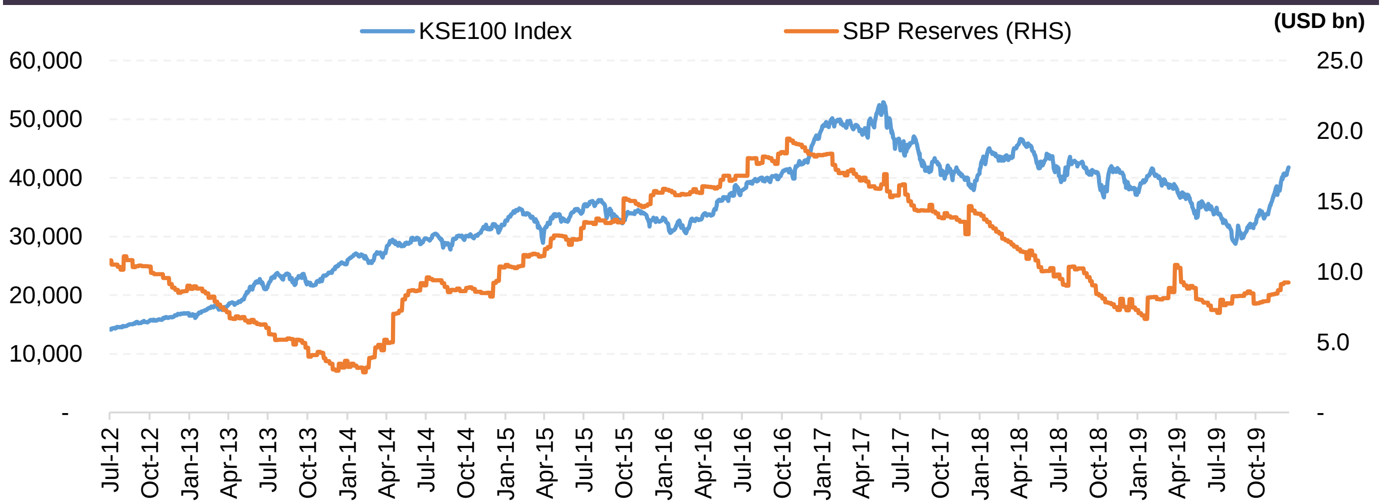
Source: Bloomberg, AHL Research

Pakistan Equity Market

Ending the Year On a High

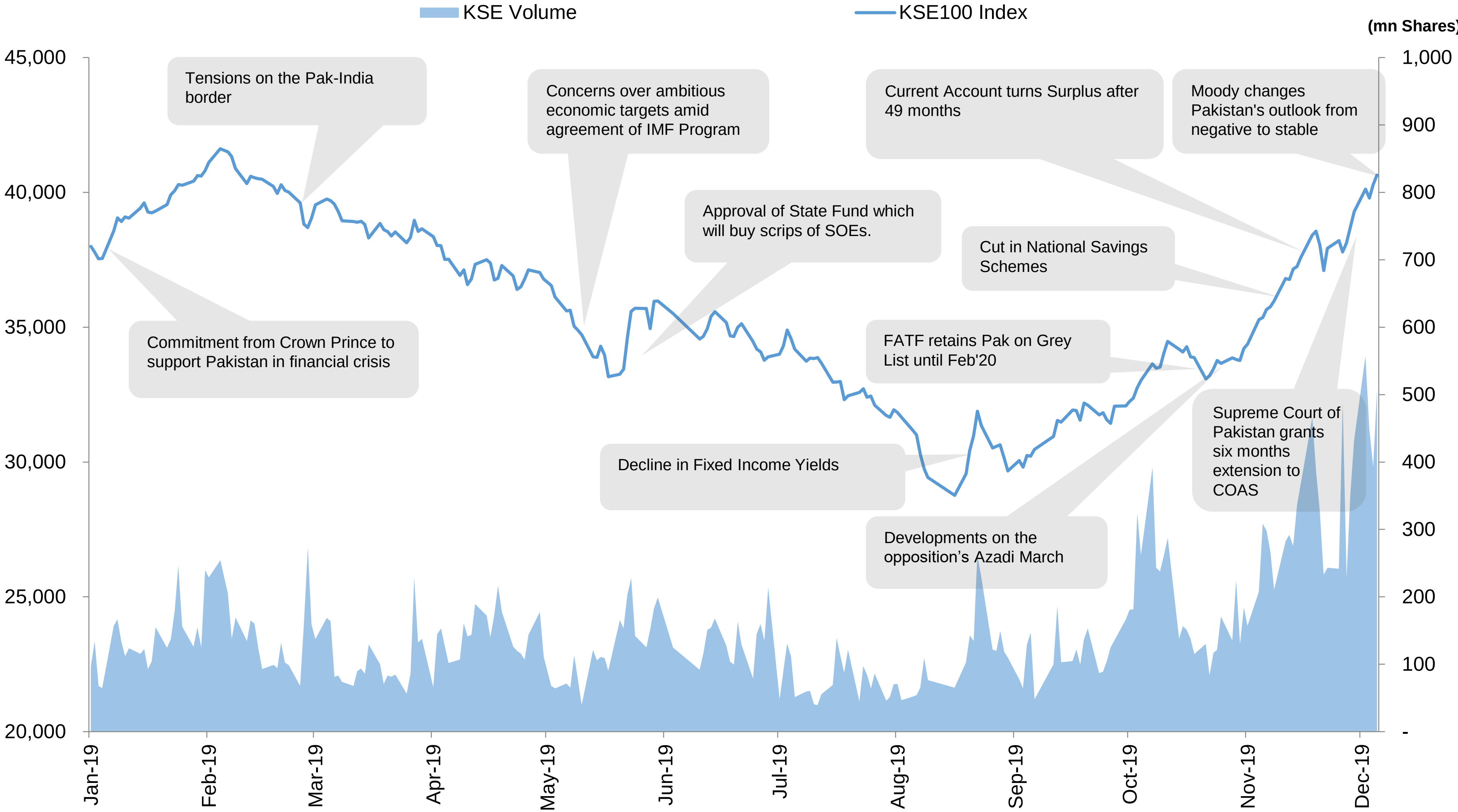
- The domestic equity bourse showed a sharp inflection post its low in Aug'19. Till date, since its low the market has shown a remarkable rebound of 39%, and in effect turning the CY return positive. Undoubtedly, dirt cheap valuations across the index and over-selling were pivotal factors for the impressive market performance but we see the economy entering into stabilization mode as a more sustainable and important reason.
- In this regard, we think the Jul'19 SBP MPS was very crucial in which the SBP spoke of all adjustments related to interest rate and exchange rate from previously accumulated imbalances that had taken place. The statement gave birth to expectations of monetary easing from 3QFY20 when the SBP expects inflationary pressure to recede. This led to the start of decline in fixed income yields and an inversion of the yield curve. Rates on National Saving Certificates also faced a cut. The decline in yields of these asset classes spurred jubilance in the stock market.
- Furthermore, FX reserves started building up with the advent of the new fiscal year and have increased by USD 3.2bn to settle at USD 17.7bn till the second week of Dec'19. The reserves build-up was led primarily by diffusion of uncertainty over the external account as the CAD has contracted by 73% YoY during 5MFY20 with a surplus in Oct'19 of USD 70mn – a first in 49 months.
- In addition to this, SBP's liabilities in lieu of futures and swaps also started declining. Lucrative yields on fixed income instruments have also managed to lure in foreign investments in T-Bills which has crossed the USD 1.2bn mark in FYTD – a major boost for reserves. The consolidation of reserves and critically needed contraction in imports has boosted import cover to 2.2 months compared to 1.3 at the start of CY19.

Exhibit: Historical Trend of KSE-100 and SBP Reserves



Source: SBP, PSX, AHL Research

KSE100 Index
Event Graph

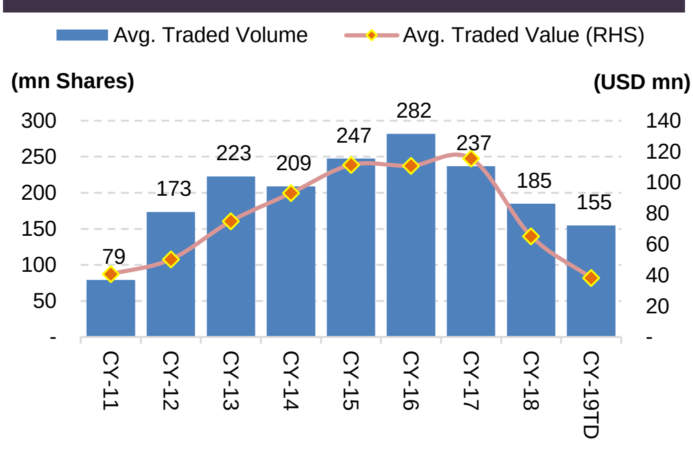


Pakistan Equity Market

Average Volume and Value at Seven Year Low

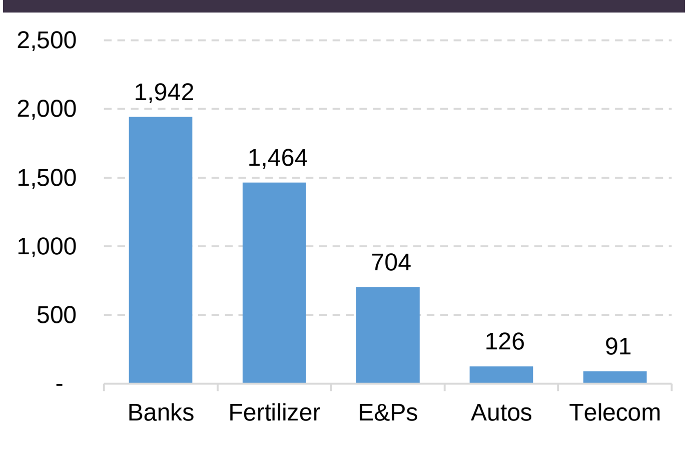
- **Lowest Average Volume and Value since CY11:** During CY19TD, while the domestic bourse crashed to the 28k mark (lowest 5-Yr level) on account of reasons discussed earlier, average volumes dropped to a 7-Yr low (last observed in CY11) at 155mn shares, down 16% YoY compared to CY18 average volumes of 185mn shares. This year volumes registered a high of 557mn shares on 2nd Dec'19 - highest volumes since MSCI Emerging Market inclusion on 24th May'17 of 607mn shares. On the other hand, this year the market witnessed decade low volumes of 39mn shares on 10th May'19. Likewise, average value traded plunged by 42% YoY to USD 38mn (this level was last observed in CY10) compared to USD 66mn in CY18. The decline in market activity was primarily a result of: i) Further monetary tightening by 325bps during CY19, making fixed income instruments more attractive, and ii) Documentation drive by the government which adversely affected the flow of undocumented money in the market. Pertinently, highest value traded value on a single day arrived at USD 130mn on 5th Dec'19.
- **Rally in Second Half Aided Volumes:** We do highlight that volumes have shown relative recovery in 2HCY19 (avg. volumes in 2H arrived at 184mn shares vs. 132mn shares in 1H) as investor confidence in the market recovered. Evidently, volumes in Nov'19 (at 305mn shares) were the highest since May'17 (at 337mn shares).
- **Sectors-wise Volume Breakup**: Sectors that attracted major volumes during the year were Cements, Commercial Banks, Technology & Communication, Power Generation, and Chemicals registering average volumes of 22.0mn, 19.2mn, 15.6mn, 12.2mn and 12.1mn, respectively. Whereas on a scrip-wise basis, volumes were led by BOP (9.52mn), LOTCHEM (8.97mn) and KEL (8.64mn).
- **Index Contribution:** Gainers dominating the index contributions included Commercial Banks (1,942pts, 50% of total increase in index) followed by Fertilizer (1,464pts, 38% of total increase), Oil & Gas Exploration Companies (704pts, 18% of total increase), Automobile Assembler (126pts, 3% of total increase), and Technology & Communication (91pts, 2% of total increase). Meanwhile, scrip wise top contributions to the upside were led by HBL (655pts, 17% of total increase), UBL (611pts, 16% of total increase), and ENGRO (607pts, 16% of total increase) primarily attributable to: i) HBL's non-recurring expenses/losses (Business Transformation/NY remediation, compliance costs and revaluation loss on open FX position) tapering off, and ii) Reduced overseas provisioning and build-up of international coverage by UBL, and iii) Commencement of Engro's long-awaited Thar Coal Project. Scrip wise negative contributors were i) KAPCO (-125 pts), ii) HASCOL (-111 pts), and iii) FFBL (-95 pts) on account of i) KAPCO's low dividend payout during the year, ii) HASCOL's inventory and exchange losses leading to significant losses in 9M period as well as in CY19E, and iii) FFBL's low DAP offtakes/primary margins.

Exhibit: ADTV Declined by 41% YoY during CY19



Source (s): PSX, AHL Research

Exhibit: Index contribution of Top 5-Sectors



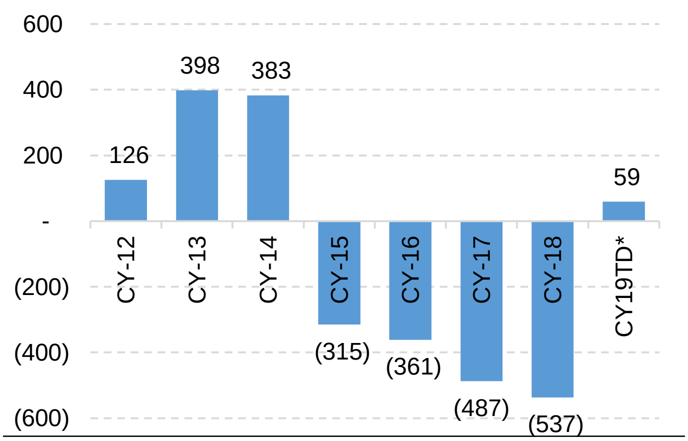
Source (s): PSX, AHL Research

Pakistan Equity Market

Foreigners Portray Optimism Post 4-Yr Drought

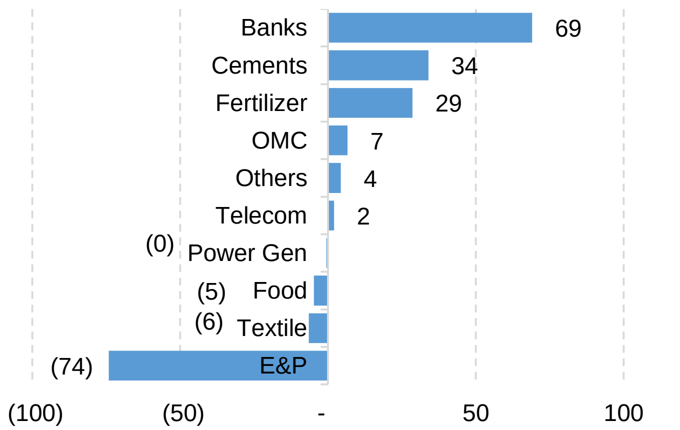
- **Intensified Foreign Selling Comes to an End:** After four consecutive years of foreign outflows from PSX (beyond USD 1.6bn in aggregate - fully absorbed by local investors and institutions), this year we witnessed foreigners cashing in on the revival in economic fortunes in Pakistan and accumulating stocks worth USD 59mn compared to net sell of USD 537mn in CY18, which was a despondent year for PSX in terms of foreign selling. Sentiment of foreign investors improved on the back of i) Cheap Valuations, ii) Market determined exchange rate helping stability of the PKR/USD parity, and iii) Reduction in CAD and build-up of foreign exchange reserves. On the local front, major offloading was led by Mutual Funds (USD 168mn) and Insurance companies (USD 65mn) in CY19.
- **Sector-wise Accumulation:** Major foreign buying was witnessed in i) Commercial Banks (USD 69mn) given expanding NIMs from higher interest rates, ii) Cements (USD 34mn) due to lower coal prices, higher dispatches in FYTD and expectation of a rate cut cycle starting in CY20 iii) Fertilizer (USD 29mn) amid stable offtake and higher pricing power, iv) Oil and Gas Marketing Companies (USD 7mn), and v) All Other Sectors (USD 4mn).
- **Individuals Led the Rally Since Market Low:** Since the market touched its low in Aug'19, Individuals have bought equities worth USD 103mn. Following this, Other Organizations and Funds were the largest accumulators with net buying set at USD 21mn and USD 10mn, respectively. On the flipside, selling was undertaken by Banks, Insurance Companies and Foreigners at USD 74mn, USD 44mn and USD 18mn, respectively.
- **China Witnessed Significant Capital Outflow in the Region During CY19:** China witnessed massive outflow of USD 320bn as foreign investors continuously pulled out their capital due to escalated trade war between US and China, along with Chinese government's proposed extradition bill, whereby protests in Hong Kong triggered a recession (capital flight) as a number of sectors have come under pressure. Further, data of the Asia-Pac region reveals that outflows were also witnessed in Malaysia, Thailand, and Japan at USD 2,679mn, USD 1,212mn and USD 908mn, respectively. However, India, Taiwan, Indonesia, Vietnam, South Korea and Pakistan managed to attract massive foreign inflows of USD 13,295mn, USD 10,388mn, USD 2,946mn, USD 280mn, USD 130mn, USD 59mn, respectively.
- **Outlook:** We expect foreign investors to continue their buying momentum. With volatility in the exchange rate parity minimized and stability majorly achieved, alongside continuous improvements on the external account, we view the consolidation on the macroeconomic front as a key catalyst for foreign interest. We also highlight political stability as a key component to foreign investors' confidence in local markets and the dynamics of the present ruling government should provide that. Moreover, expectation of a decline in interest rates by 200bps in CY20 should make valuations across the equity market more enticing compared to debt markets. The KSE-100 index is currently trading at an attractive PE of 7.2x (2020) compared to regional (Asia-Pac) average of 13.6x, while offering DY of ~7.8% versus~2.6% offered by the region.

Exhibit: Net Foreign Flows (USD mn)



Source (s): NCCPL, AHL Research, *13-Dec-2019

Exhibit: Sector Wise Foreign Flows CY19TD* (USD mn)



Source (s): NCCPL, AHL Research, *13-Dec-2019

ARIF HABIB LIMITED

Earnings Growth Expected at 5-Yr High

- **Textiles Lead the Earnings Chart in 2019:** Earnings growth of the KSE-100 index in 2019 is expected to arrive at 7.8%. This was led by the Textile sector, depicting a stunning growth of 57.3% attributable to PKR depreciation (19% YoY) which aided exchange gains. Following this, the E&P sector underwent a growth of 46.3% in 2019 given a combination of higher crude oil prices (Arab Light was up by 12% YoY) and PKR depreciation. Finally, we expect the heavy-weight Banking sector to unveil an earnings growth of 20.5% in lieu of the rising interest rate scenario.
- With that said, we project earnings growth of the benchmark index in the upcoming year at a **5-yr high of 14.4%**. Top performing sectors are listed below.
  - I. **Power**: Power sector is estimated to post an earnings growth of 52.6% on the grounds of HUBC's 1,320MW imported coal power plant commencing operations in Aug'19.
  - II. **Commercial Banks:** Solid profitability growth of the banking sector at 41.1% in 2020, is premised on the assumption of higher average interest rates and mild recovery in loan growth.
  - III. **Fertilizers:** We cite stable offtake alongside pricing power of local manufacturers to translate to an 11.5% growth in profitability of fertilizer companies in 2020.
  - IV. **E&P:** Earnings growth of the E&P sector (9.6% in 2020) is hinged upon average PKR depreciation on a YoY basis tagged with stable production.
- We do highlight that we foresee the Oil and Gas Marketing Companies (OMC's) to be an outlier in 2020 and display a massive surge in earnings of 161.4% primarily due to lack of one-time FX and inventory losses recognized by HASCOL in the outgoing year.
- Albeit, underperformance by certain sectors is forecast to contain the otherwise robust earnings growth.
  - I. **Cement:** This sector tops the list of dampeners with corporate earnings forecast to decline by 86.9% in 2020 on the back of waning pricing power post inundation of imminent new capacities of LUCK, KOHC and PIOC (7.3mn tons) together with cost pressures associated with new plants.
  - II. **Automobile Assemblers:** Auto companies are expected to exhibit another year of slowdown (earnings to go down by 27.7% in 2020) marked by cyclical weakness in volumes and inability to pass on rising cost pressures, which should translate to feeble margins.
  - III. **Textiles:** This sector snags the third spot on the laggards list with profitability of the sector likely to dwindle by 26.8% amid lack of one-off's (exchange gains).

Exhibit: Corporate Sector Earnings Growth: Trend & Forecast

(%)	2014A	2015A	2016A	2017A	2018A	5-Y Avg.	2019E	2020F
E&P	31.6	(29.4)	(33.3)	30.7	27.8	5.5	46.3	9.6
Banks	37.2	13.8	0.4	(21.5)	4.8	6.9	20.0	41.1
Fertilizer	0.0	66.4	34.7	(57.1)	41.3	17.1	13.4	11.5
Cement	16.6	15.6	20.3	(2.7)	(5.4)	8.8	(32.3)	(86.9)
OMCs	46.7	(52.3)	80.0	65.4	(14.6)	25.0	(71.3)	161.4
Autos	12.6	120.7	(1.4)	37.4	8.4	35.5	(37.7)	(27.7)
Power	(0.4)	29.5	(0.1)	(1.2)	9.3	7.4	10.6	52.6
Textiles	(1.7)	(6.2)	37.1	(13.4)	12.2	5.6	57.3	(26.8)
Chemicals	6.4	20.6	35.4	28.8	64.2	31.1	(1.8)	1.5
Steel	29.4	(21.8)	110.8	148.7	21.7	57.7	(28.7)	(16.8)
KSE-100	**20.8**	**7.9**	**8.3**	**(9.3)**	**8.2**	**7.2**	**7.8**	**14.4**

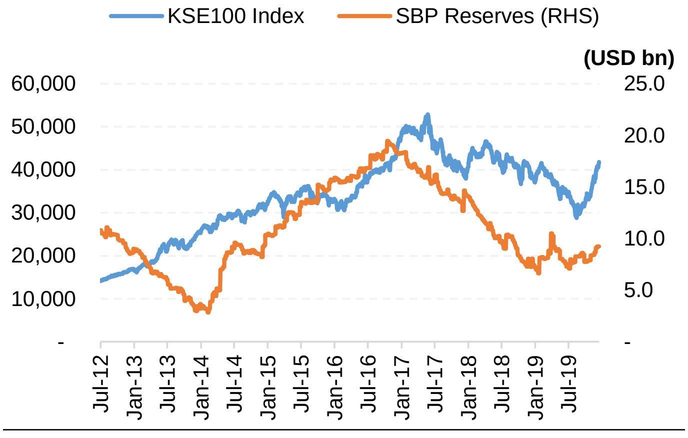
Source (s): Company Financials, AHL Research

Pakistan Equity Market

KSE-100 vs. Foreign Exchange Reserves

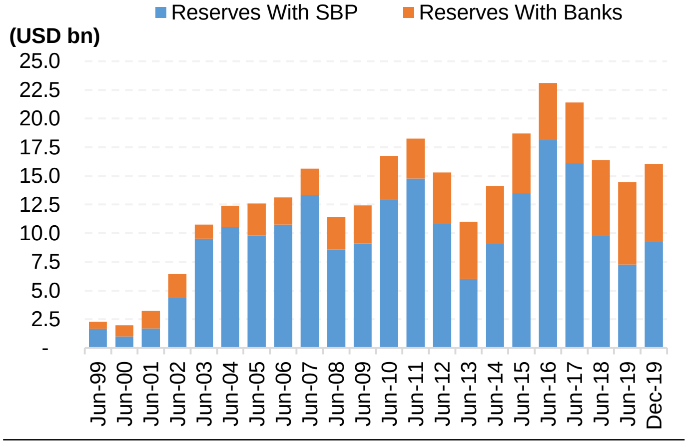
- Level of the KSE-100 Index is a combination of companies' performance as well as investors' confidence in Pakistan's economy. Similarly, SBP's reserves exhibit the country's ability to finance its imports and other foreign exchange outflows while maintaining its status as a "Going Concern".
- SBP's reserves have increased by USD 3.6bn or 50% since the start of FY20. Likewise, the KSE-100 index has increased by 21% during the same period. Going forward, in the long term, both the indicators which depict confidence in the economy should move in-tandem with macroeconomic climate accelerating towards sustainability.
- We believe that if the government's economic reforms (which although are painful for numerous sectors) are able to bring in foreign inflows on a sustainable basis, investor confidence in the market is likely to sustain its bullish momentum.
- Apart from the timing difference, since the country is under the IMF program, all major outflows/inflows are already budgeted, planned and adequately funded.
- Influx of funds is expected from various sources such as rollover of Saudi Arabia, UAE, Chinese and Qatari deposits (USD 8.5bn), privatization proceeds (USD 2.0bn), issuance of Eurobonds / Sukuk (USD 3.0bn), Saudi Oil Facility (USD 1.5bn), and borrowings from multilateral institutions such as ADB, IDB and World Bank. To recall, debt repayments for the next 12 months starting Sep'19 stand at USD 17.6bn.

Exhibit: KSE-100 and SBP Reserves



Source (s): SBP, PSX, AHL Research

Exhibit: SBP Reserves and Pakistan Total Reserves



Source (s): SBP, AHL Research

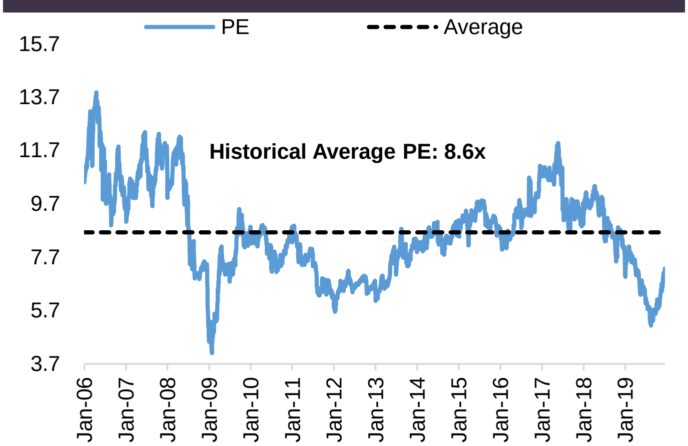
- **51,000 Index target:** Pakistan equity market is expected to generate a **total return of 25%** during 2020. We expect the KSE-100 index to reach 51,000 points by Dec'20. Our index target mapping methodology includes 1) Earnings growth, 2) Justified PER, and 3) Target price mapping.
- **Sustained FIPI Momentum owing to Macroeconomic Sustainability:** We believe that the Balance of Payments front is quite manageable now with continuous decline in imports, thanks to PKR depreciation and taxation measures at large to curb imports, along with several inflows planned for the next year tagged with hot money flows which are expected to lead towards continuous increase in SBP reserves, we view.
- **Hot Money Flows:** The country has successfully managed to attract foreign investment in lucrative short term government papers. High yields coupled with a strengthening currency have helped lure over USD 1.2bn foreign investment in treasury bills, which is unprecedented in history. This shows the confidence of foreign investors in local currency parity and economic reforms, and could also trigger equities flows in the country in 2020.
- **Earnings Growth**: Earnings growth in CY20 is estimated to be 14.4%, the double digit growth is attributable to earnings growth in heavy weight including Commercial Banks (41%), Power (53%), Fertilizers (12%) and E&P's (10%), which have a cumulative ~61.7% weightage in the KSE-100 index. Higher net interest income coupled with stellar earnings rebound in large banks shall stem growth in the Banking sector, whereas Power sector profitability mainly stems from CoD of HUBC's 1,320MW coal-based power plant. Fertilizer sector growth is premised on stable offtake along with pricing power. While growth of the E&P sector is driven from PKR depreciation and stable production. Additionally, OMCs should remain in the limelight due to absences of losses in oil marketing sector i.e. exchange loss and inventory loss.
- **Reversion to Mean PE:** The local bourse is expected to amass strong returns in CY20 supported by ongoing PER re-rating hypothesis. We view that firmness in external sector, stable foreign currency outlook, hot money inflows, increase in SBP foreign exchange reserves and strong earnings growth of over 14% will re-rate the market PE to its mean average of 8.6x (14-Yr). Currently the market is trading at a CY20F PER of 7.2x, at a discount of 19.4% as compared to mean PE coupled with enticing dividend yield of 6.7% taking full year return to 26%.

Exhibit: KSE-100 Index Target Estimates 2020

Valuation Basis	Target
Target Price Based	54,815
Earnings Growth	49,673
Justified PE	48,768
Average Target 2020	**51,085**
Index Closing 13-Dec-19	40,917
Expected Return 2020	**24.9%**

Source (s): AHL Research

Exhibit: KSE-100 Historical PER



Source (s): Bloomberg, AHL Research

Commercial Banks

Growth Story to Continue

Commercial Banks

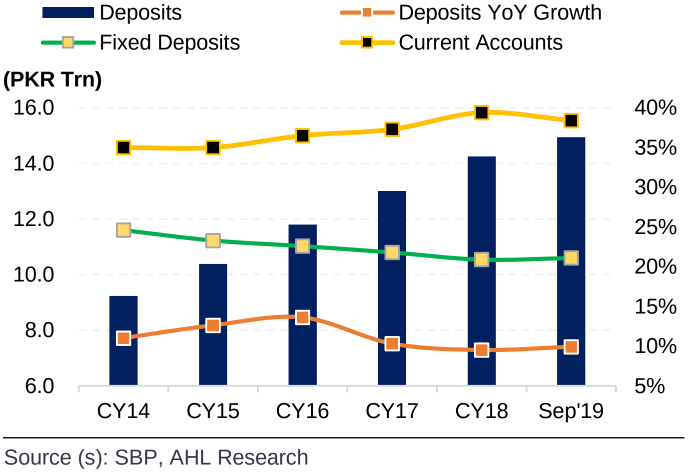
Growth Story to Continue

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
9,444	26.5%	20	34.8%	Over Weight

Key Investment Theme

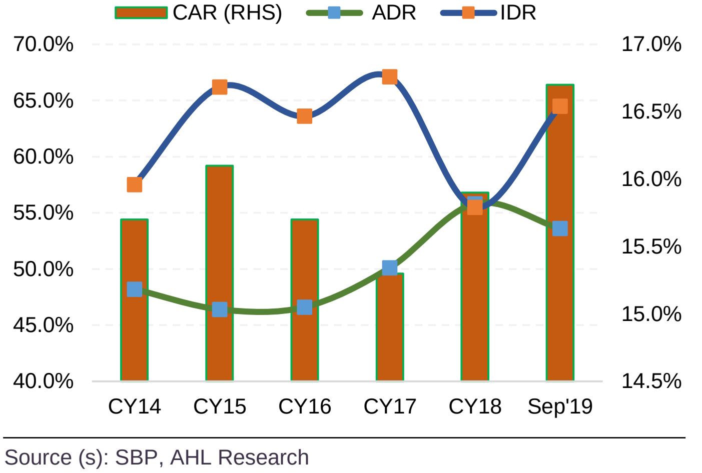
- **Every Light Has its Shadow:** Monetary tightening improved spreads of the sector (6.1% as at Oct'19, +110 bps YoY) but also compressed cash cycles of companies, squeezed aggregate demand and adversely impacted loan growth (-8% YoY during Sep'19 vis-à-vis 22% in SPLY). Credit offtake to the Corporate Sector clocked-in at 10% YoY during Sep'19 (slowing down from 25% during CY18) where demand for loans was primarily concentrated in working capital financing requirements, which grew by just 16% YoY during Sep'19 (36% during CY18). Loans to SME sector saw a meagre increase of 1% YoY (CY18: 12%) while commodity financing witnessed a decline of 6.4% (CY18: 17.5%). We expect loan growth to settle at 2% during CY19 and see an improvement in CY20 (+7% YoY) attributable to increased demand for working capital financing. Partly some fixed investment through LTFF may be seen from the textile sector expansion projects as well as new power projects. Additionally, with the economy finally entering into a phase of stabilization, the gov't is likely to promote SME financing as part of its National Financial Inclusion Strategy (NFIS) [aimed to enhance SME financing to 17% of pvt. sector credit (~5% currently)]. Monetary easing and gradual revival of economic activity in the country are likely to be catalysts too.
- **Deposit Growth Revival:** With inflation to begin its downhill journey next year, we expect monetary easing to start which should allow NPL build-up to slow down. Moreover, deposit growth is likely to inflect as well after a slowdown (5% in CYTD) – a repercussion of the documentation drive, increased KYC requirements by banks, and banks chasing current accounts/shedding off fixed deposits. Currency in circulation as a proportion of deposits is currently ~30% and had touched an all-time high of 37% in May'19. We see deposit growth to pick up and clock-in at 9.3% during CY20 and 12% in CY21. Deposit base expansion of banks is likely to be mobilized towards investments as banks would lock-in attractive yields in government papers. Re-profiling of investment book following maturity of legacy bonds coupled with investments in attractive shorter term securities (inverted yield curve) would help fuel investment yields.

Exhibit: Focus on Low-Cost Deposits



Source (s): SBP, AHL Research

Exhibit: Strengthening CAR



Source (s): SBP, AHL Research

Commercial Banks

Growth Story to Continue

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
9,444	26.5%	20	34.8%	Over Weight

Key Investment Theme

- **NIMs Expansion:** NIMs are likely to continue growing with asset re-pricing to be in full force during CY20. Interest rate cuts during CY20 are likely to be a further catalyst for profitability due to immediate downwards adjustment of saving deposit rates (lagged impact of asset re-pricing). Moreover, banks started building up their investment portfolios towards the longer end of the curve – another stimulus for NIMs going forward. We project earnings of the AHL banking universe to portray a jump of 51% YoY during CY20 (assuming normal profit for NBP – we have assumed a loss owing to the pension liability), while NIMs for our coverage universe are expected to expand by ~75 bps.

Key Risks

- Aggressive NPL build-up.
- Adverse economic developments (continuing inflationary pressure may lead to monetary tightening) could possibly keep loan growth in-check.
- Compliance/KYC short-comings may incur significant penalties.
- High provisioning following NPL stock pile-up in CY19.
- IFRS-9 implementation (deadline Jan'21) may adversely impact credit costs

United Bank Ltd.

Regaining Lost Glory

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
UBL	210.85	169.09	24.7%	BUY

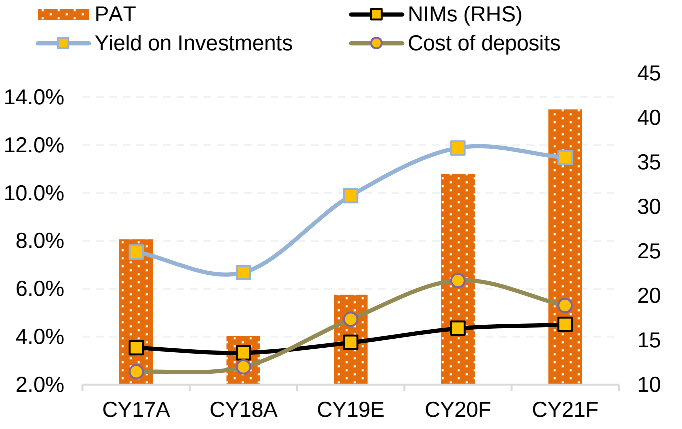
Key Investment Theme

- **About Time:** UBL has accelerated ~43% since its low of PKR 118/share (return of ~39% in CYTD), outperforming the index (~11% in CYTD), attributable primarily to the valuation gap that had widened massively (P/B had nosedived to 0.89x). Moreover cleaning up of the overseas book, reduced provisioning expenses (-29% YoY during 9MCY19) and absence of one-off pension costs this year have helped the bank to post 46% YoY higher earnings. We believe that higher NIMs [re-pricing of the investment book at higher yields as the bank's legacy bonds mature (PKR 110bn maturity in CY20)], alongside a cleaner international book and controlled Cost/Income (54% during 9MCY19 against 56% in SPLY despite inflationary pressure) will be catalysts for further upside. UBL currently trades at a P/B of 1.1x, at a ~35% discount to its last 5-Yr avg. and a ~20% discount to our exit multiple of 1.3x. UBL is operating at a trailing ROE of 11.3% and is expected to accelerate to an avg. of 22% over the next 5 years.
- **Impeccable Deposit Franchise:** UBL's domestic business continues to stand on a firm footing (81% / 77% to the bank's total deposits / loans). The strong deposit franchise of the bank helped leverage its position during the year (discount rate up by 325 bps in CY19) and shielded the bank from a drastic increase in domestic cost of deposits (5.2% against 2.8% in SPLY). UBL's domestic C/A ratio stands at a concrete 45%. That said, higher avg. interest rates for CY20 will translate to an uptick in cost of funds by ~139 bps. However, re-profiling of investment book (investment yields improved from 7.5% in 9MCY18 to 9.6% in 9MCY19, projected to increase to 12% in CY20) and higher spreads is likely to morph into higher yields on assets for the bank by ~173 bps.
- **Allaying Concerns on Overseas Book:** Overseas NPL build-up has settled at 18% in CYTD. Overall infection has deteriorated to 10.7% (Dec'18: 8.5%) with overseas infection rising to a mammoth 26% (Dec'18: 19.8%). However, with the corporate sector dominating the bank's loan book (57%), we do not see NPL build up as major threat to overall asset quality. Albeit, we project overall infection to increase due to higher interest rates denting the credit profile of borrowers and settle at an avg. of 10.9% over the next 3 years. Substantial work has been done on cleaning up the international book through de-risking (focusing on safer business models such as Trade and Treasury), reducing exposure (avg. loan book down 30% YoY) and adequately providing for the NPL pile up – primarily from the Gulf region [79% coverage (collateralized coverage: 92%) vis-à-vis 73% as at CY18].

Key Risks

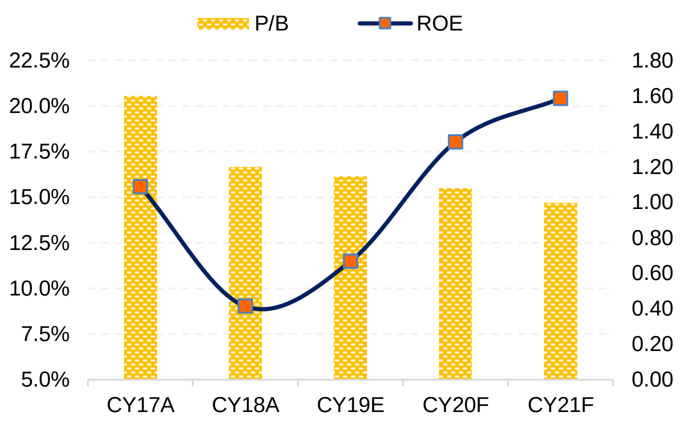
- Overseas NPL accretion owing to weaker economic conditions in the Gulf.
- Increase in interest rates may incur MTM losses on bond portfolio.

Exhibit: Improving NIMs Fueling PAT



Source (s): Company Financials, AHL Research

Exhibit: Attractive Valuation



Source (s): Company Financials, AHL Research

United Bank Ltd.

Regaining Lost Glory

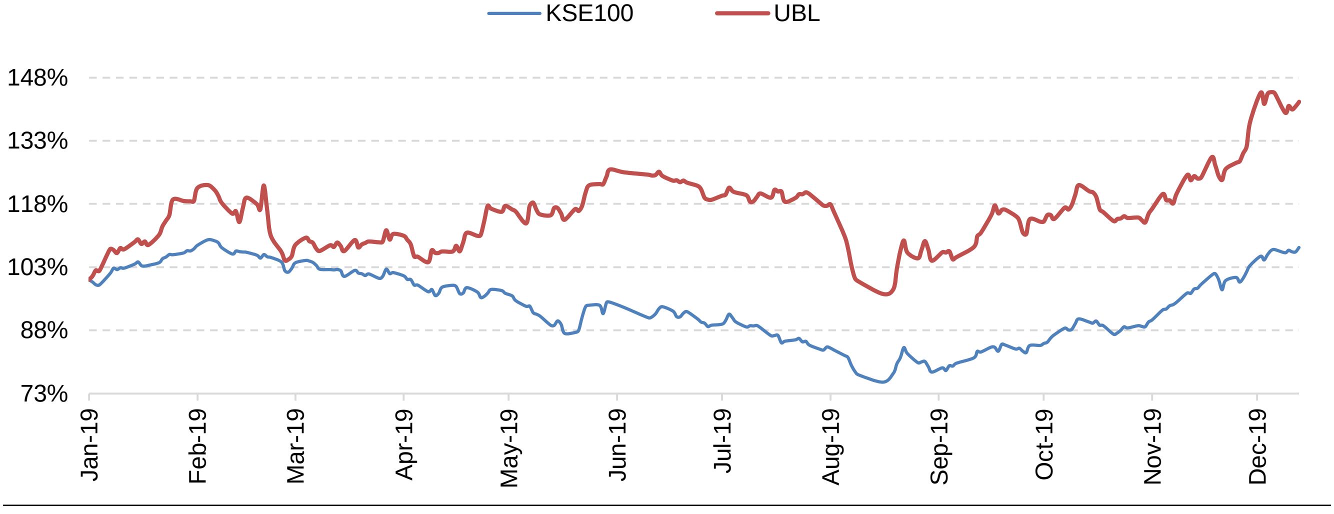
PKR mn	2018A	2019E	2020F
Income Statement			
Mark-up Income	58,248	65,371	81,850
Non-Mark-up Income	26,644	25,186	26,339
Total Income	85,591	91,436	109,178
Provisioning	13,102	9,350	6,554
OPEX	40,444	43,490	47,355
Post Tax Profit	15,050	20,292	33,715
Balance Sheet			
Advances	754,552	688,593	727,637
Deposits	1,448,324	1,519,768	1,669,310
Investments	831,159	1,034,051	1,120,322
Borrowings	279,918	349,547	333,862
Total Equity TIER - II	168,624	181,296	195,121

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	12.6	16.4	27.5
Dividend	PKR	11.0	11.0	18.0
Book value	PKR	137.7	148.1	159.4
Price to Earning	x	10.1	10.3	6.1
Price to Book	x	0.9	1.1	1.1
ADR	%	56.3	50.3	48.7
IDR	%	57.4	68.0	67.1
NIMs	%	3.1	3.5	4.1
RoE	%	9.0	11.5	17.9
RoA	%	0.7	1.0	1.5

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

MCB Bank Ltd.

Safe Fundamental Bet

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
MCB	263.65	212.72	23.9%	BUY

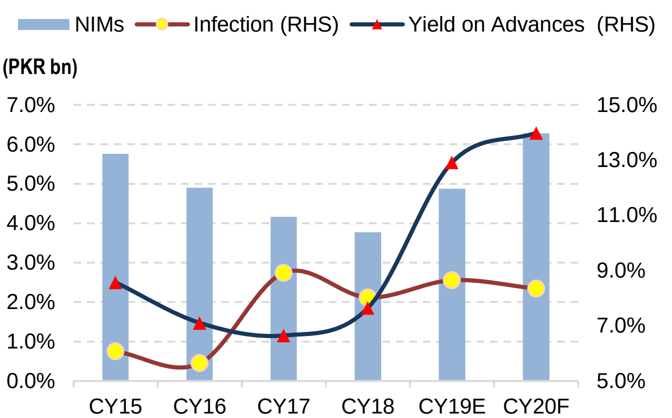
Key Investment Theme

- **Infection Should Remain in-check:** Despite higher interest rates, we view that MCB's infection will not face a major deterioration due to recoveries flowing in from the NIB loan book. MCB has traditionally boasted strong credit risk management and prudent lending. This is perhaps why MCB trades at a premium valuation to its peers (last 5-Yr avg. P/B: 1.6x). The bank has recovered ~PKR 4.3bn so far from PKR 29.6bn NPL stock of NIB which forms 14.5% of total. MCB aims to recover 40-50% of the NPL stock from the NIB book over 3 years since acquisition. Infection ratio for the bank clocked-in at 8.8% as at 9MCY19 vis-à-vis 8% as at CY18 (3% decline in loans in CYTD). NIB recoveries, strong credit risk management, corporate sector dominating loan book (~64%) should keep infection in-check - avg. of 7.8% over the next 3 years. We expect NPL accretion to be limited to PKR 4bn till CY22. The shining asset quality is expected to compliment the bank's NIMs expansion which we expect to accelerate to 6.2% in CY20 (9MCY19: 4.5%). Low exposure to long tenor securities throughout the rates expansion period positioned the bank's balance sheet well, ensuring aggressive NIMs expansion.
- **Limited International Operations - Blessing in disguise:** International operations over the past couple of years have stressed peer banks: HBL and UBL. Major exposure of these banks has been in the GCC region where the economy has been on a consistent downwards trajectory, culminating in significant NPL accretion and hefty provisioning expenses (particularly UBL). Tightening global regulations and compliance requirements have forced the banks to de-scale international operations. International loans contribute a mere 9% to MCB's total gross loans (UBL: 23%, HBL: 16%) while international assets comprise a nominal ~3% of total assets (UBL: ~15%, HBL: ~17%). Limited exposure to overseas operations will prevent any legal/remediation costs (suffered by HBL) or any hefty provisioning expenses on the overseas book (suffered by UBL) that peer banks have been hit with.
- **Dividends Galore:** Since CY15 MCB has maintained a stellar payout ratio of an avg. 88% which drastically outperforms its peers' avg. during the said period – HBL: ~54% and UBL: ~69%. The stock has offered an avg. DY of 7.3% since CY15 while HBL has offered an avg. yield of 5.5% and UBL has provided an avg. yield of 7.2%. Standing on a strong capital base (1HCY19 CAR: 18.2%), we can expect the generous pay-out ratio to continue going forward. We project pay-out ratios to avg. at 75% for the next 3 years, and forecast MCB to provide a forward dividend yield of 9.9% in CY20, compared to an avg. ~6.5% for AHL banking sector universe.

Key Risks

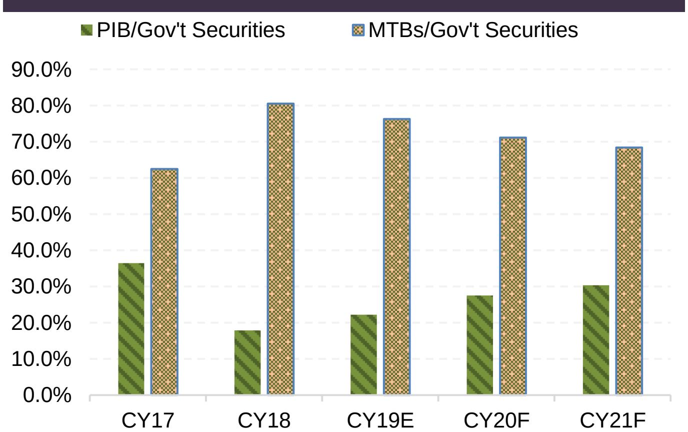
- Slowdown in recoveries from NIB poses a downside risk to asset quality.
- More than expected rate cuts may stress NIMs going forward.

Exhibit: NIMs Forte



Source (s): Company Financials, AHL Research

Exhibit: Government Securities Mix



Source (s): Company Financials, AHL Research

MCB Bank Ltd.

Safe Fundamental Bet

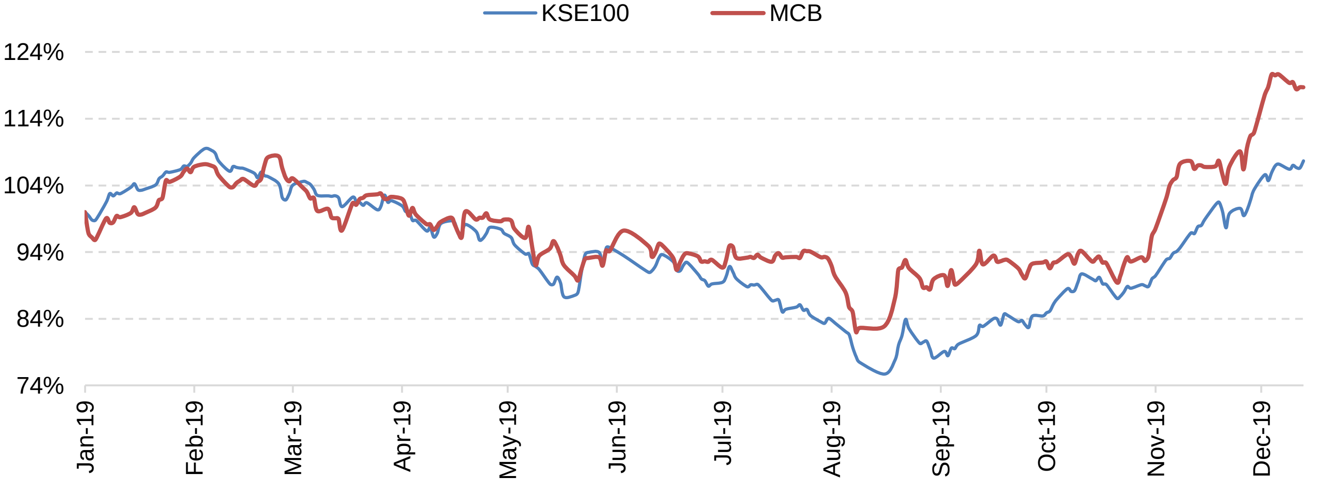
PKR mn	2018A	2019E	2020F
Income Statement			
Mark-up Income	48,006	68,017	93,135
Non-Mark-up Income	18,066	16,270	18,855
Total Income	66,072	84,288	111,990
Provisioning	(822)	2,496	1,350
OPEX	36,534	43,397	52,606
Post Tax Profit	20,353	22,086	35,291
Balance Sheet			
Advances	566,792	552,988	593,457
Deposits	1,122,307	1,236,175	1,351,346
Investments	754,386	847,069	938,834
Borrowings	223,216	148,341	189,188
Total Equity TIER - II	150,614	155,740	166,765

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	17.2	18.6	29.8
Dividend	PKR	16.0	16.0	21.0
Book value	PKR	126.5	131.4	140.7
Price to Earning	x	11.3	11.4	7.1
Price to Book	x	1.5	1.6	1.5
ADR	%	54.4	48.6	47.6
IDR	%	67.2	68.5	69.5
NIMs	%	3.8	4.9	6.3
RoE	%	13.3	14.4	21.9
RoA	%	1.8	1.4	1.4

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Habib Bank Ltd.

Banking on Value

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
HBL	197.86	156.01	26.8%	BUY

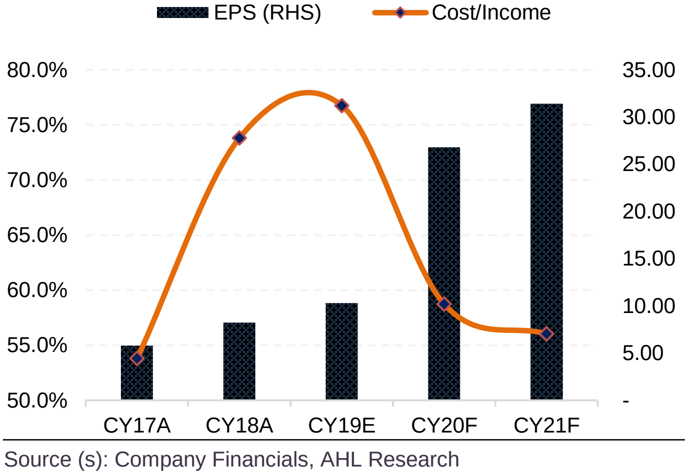
Key Investment Theme

- **Re-rating in Clear Sight:** Drags on the bank's performance from Himalayan OPEX and revaluation losses from open FX position are likely to fade away during CY20 which should stimulate re-rating. Business transformation costs (PKR 5.6bn during CY18 - ~80% of the total costs) have been nominal in CY19 compared to last year whereas NY remediation/compliance costs have been on a downwards trajectory this year (PKR 2.8bn in 9MCY19, PKR 6.4bn in CY18) and should settle 40% YoY lower. The NY branch is expected to be completely wound down in CY20 which should be a source of respite to the long overhanging fear of another possible penalty. Revaluation losses on the open FX position have come down significantly as HBL started the hedging process in 2HCY19 (gain from FX income/derivatives of PKR 2.3bn in 3Q vis-à-vis loss of PKR 3.3bn in 2Q). The management expects 20-30% of the borrowing in lieu of NY settlement to be paid off by the end of this year. We expect the bank's cost/income to come down to 59% in CY20 compared to 77% in CY19E and alongside the NII momentum from higher spreads and higher investment yields (yield on assets expected to jump to 10%/11.5% in CY19/CY20 compared to 6.8% in CY18), the bank should post a 160% jump in earnings in CY20. The bank trades at a current P/B of 1.1x / CY20F P/B of 0.96x – a ~44% / 60% discount from last 5-Yr avg. of 1.5x.
- **Unmatched Franchise Value:** HBL continues to maintain an unmatched brand value in terms of its scale, recognition and goodwill. HBL is a market leader in CPEC, involved in about USD 6bn worth projects. Its plans of expansion into the world's second largest economy are well underway with its application for full-fledged commercial operations accepted and a branch license can be expected with in 3 months, according to the CEO. Efforts for financial inclusion and development of digital strategy are areas of key focus for the bank. The bank recently launched a new digital initiative –"HBL Infinity" which is Pakistan's first e-trading platform. The bank has also collaborated with "Visa" to launch a digital payment facility for mobile phones through QR codes. Customer base of the bank stands at an unassailable, mighty level of 16mn – more than 2x higher than second positioned bank. Konnect customers have doubled since Dec'18 to 3mn. We believe that the brand value attached with HBL's legacy as Pakistan's largest bank is a major catalyst for the stock upside going forward.

Key Risks

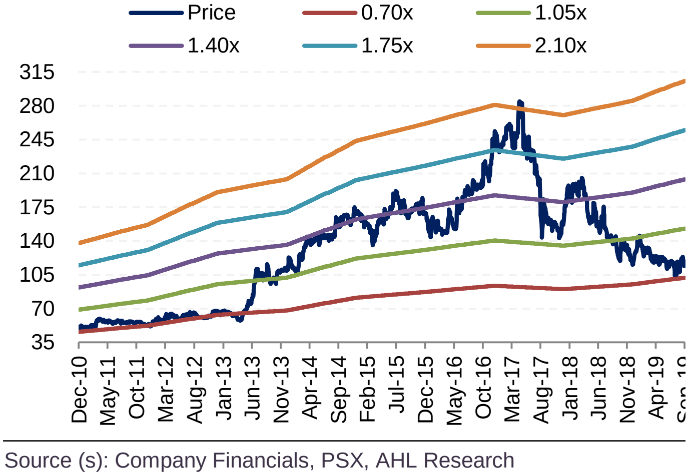
- Negative developments from ongoing look-backs in NY branch.
- Significant PKR depreciation may stress OPEX (NY remediation/compliance costs).

Exhibit: Normalizing Cost/Income



Source (s): Company Financials, AHL Research

Exhibit: : P/B Band



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

Habib Bank Ltd.

Banking on Value

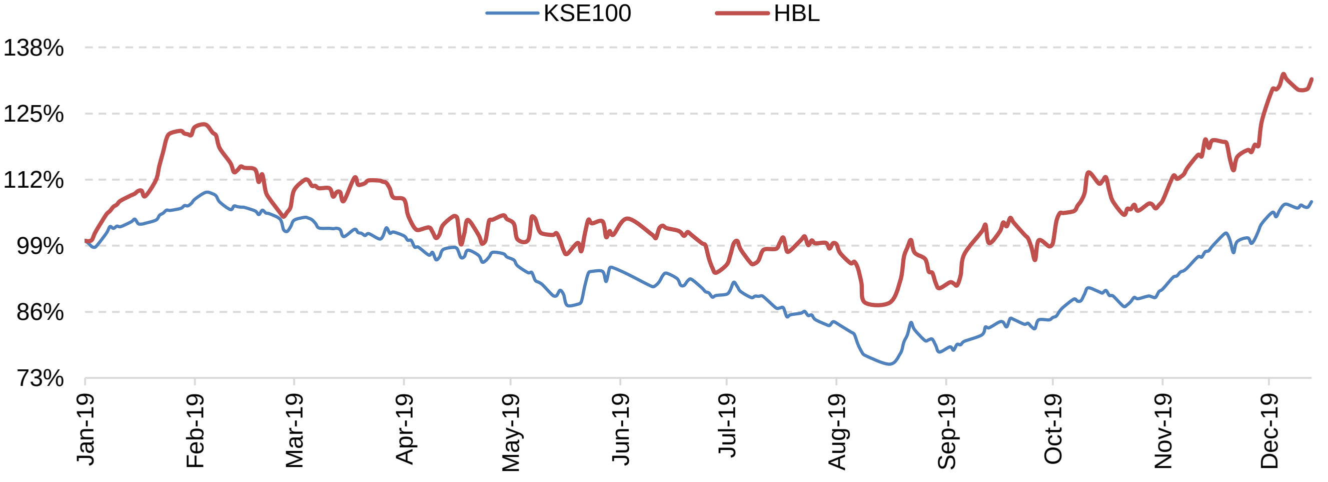
PKR mn	2018A	2019E	2020F
Income Statement			
Mark-up Income	81,677	106,377	145,827
Non-Mark-up Income	19,894	23,203	28,840
Total Income	101,571	129,581	174,667
Provisioning	5,009	3,410	9,962
OPEX	74,978	99,455	102,582
Post Tax Profit	12,056	15,117	39,311
Balance Sheet			
Advances	1,080,440	1,187,526	1,299,579
Deposits	2,137,293	2,326,917	2,591,405
Investments	1,390,052	1,482,943	1,701,399
Borrowings	523,319	465,383	492,367
Total Equity TIER - II	199,252	212,750	237,225

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	8.2	10.3	26.8
Dividend	PKR	4.3	5.0	13.0
Book value	PKR	135.8	145.0	161.7
Price to Earning	x	14.6	15.1	5.8
Price to Book	x	0.9	1.1	1.0
ADR	%	53.9	54.5	53.7
IDR	%	65.0	63.7	65.7
NIMs	%	3.4	4.0	5.0
RoE	%	6.2	7.3	17.5
RoA	%	0.4	0.5	1.2

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Exploration and Production

Attractive Discounts Warrant Attention

Exploration and Production

International Oil Price Outlook

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
7,997	14.7%	4	21.5%	Over Weight

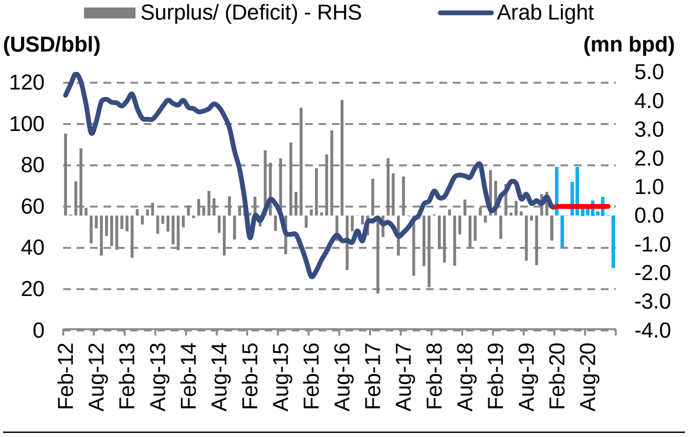
Key Investment Theme

- **OPEC Meeting:** OPEC and Russia (OPEC+) in its Dec'19 meeting decided to enhance production cuts by 0.5mb/d (0.37mb/d from OPEC and 0.13mb/d from non-OPEC) from baseline cut of 1.2mb/d taking total production cut to 1.7mb/d. Moreover, Saudi Arabia (KSA) also agreed voluntarily to curtail production beyond its agreed cut. The production cut will be applicable from Jan'20 while OPEC plus is expected to meet again in Mar'20 to extend the arrangement.
- **Demand Outlook:** In CY20, world oil demand is expected to grow by 1.36mb/d to 102.28mb/d. Growth is majorly driven by Chinese demand (+0.5mb/d YoY) and from other Asian countries (+0.38mb/d YoY).
- **Supply Outlook:** The non-OPEC oil supply growth for CY20 is expected to clock-in at 68.01mb/d which is an increase of 2.37mb/d YoY mainly due to growth from OECD countries (+2.12mb/d YoY), US oil production (+1.71mb/d YoY) and China (+0.34mb/d YoY). Moreover, supply for OPEC in CY20 is expected to be revised down by 0.67mb/d (2%) to 34.56mb/d as compared to 35.23mb/d in CY19.
- **Fiscal Breakeven:** The IMF's fiscal breakeven oil prices for 2020 ranges between a high of USD 194.6/bbl (Iran) to as low as USD 45.7/bbl (Qatar). Moreover, with KSA facing a fiscal deficit amounting USD 49.86bn (Fiscal breakeven at USD 86.5/bbl) along with higher fiscal breakeven for other middle eastern countries, oil prices are expected to remain upwards sticky next year.
- **Oil Prices Drivers:** We believe that int'l oil prices are dependent on many factors including: 1) sustainability of OPEC Plus production cuts along with success of Aramco IPO, 2) Trade war settlement between China and US which may lead towards economic imbalances in both countries, 3) US oil production which surged at a 5-Yr CAGR of 9% to 12.29mn bopd in 2019 vs. 8.76mn bopd in 2014, and 4) Further monetary easing in US which may bolster economic demand in general and oil demand in particular.

Key Risks

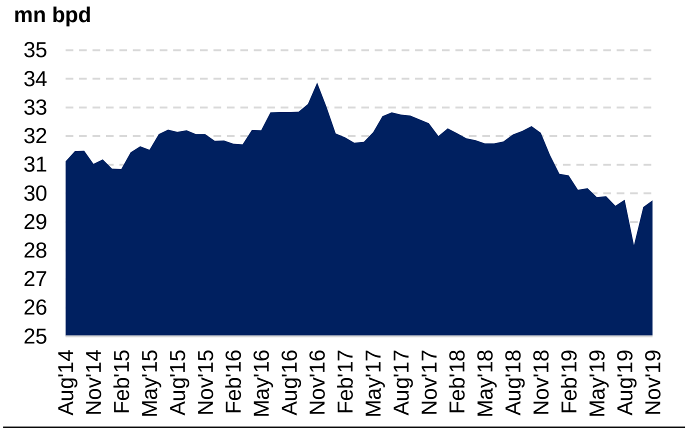
- The production cut by OPEC can be quickly neutralized by increase in production by US shale oil producers who are expected to be motivated by the Trump Administration, along with US elections next year.
- A slowdown in oil demand from major oil consuming economies.

Exhibit: World Oil Balance and Arab Light Price



Source (s): EIA, AHL Research

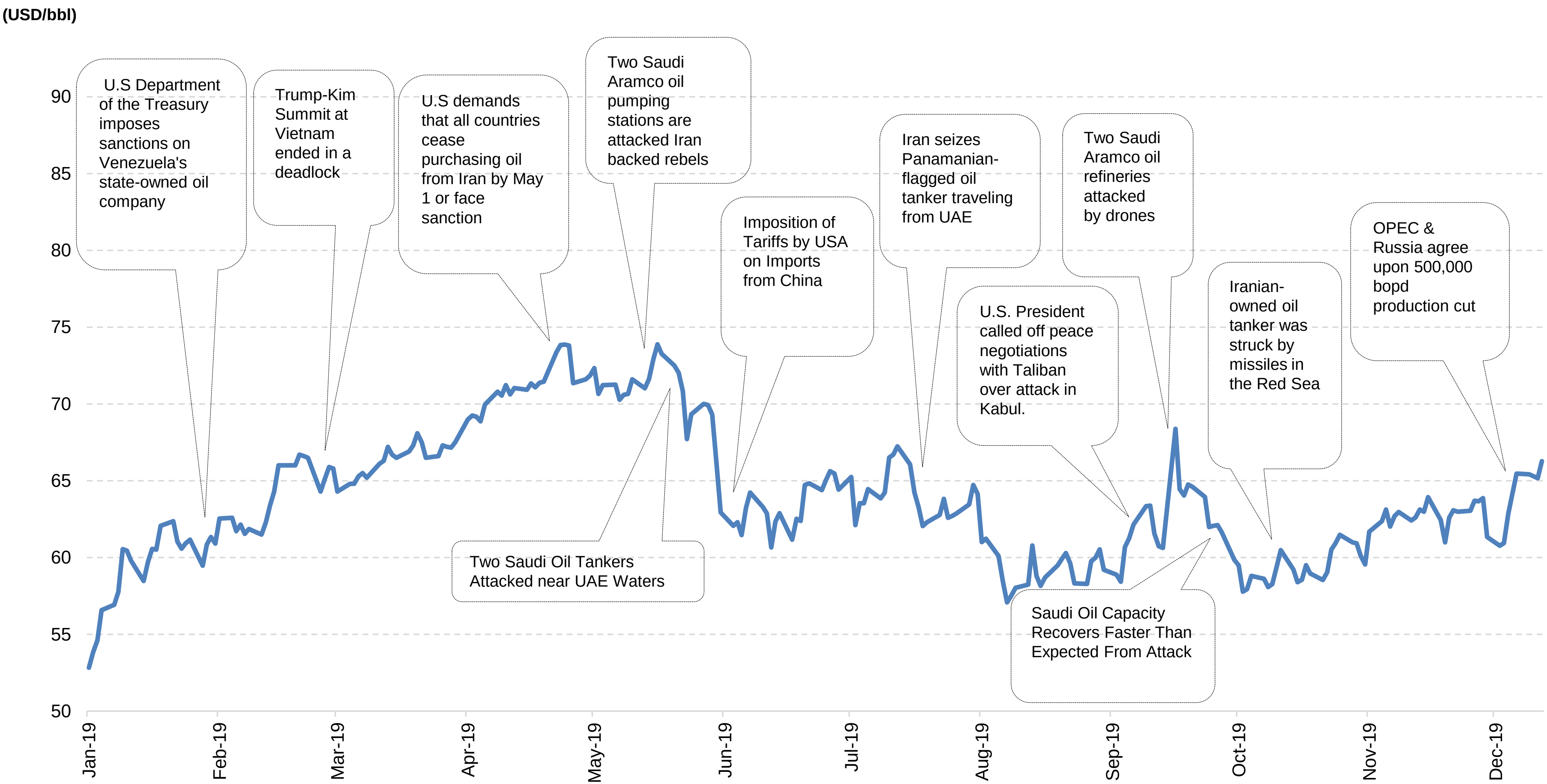
Exhibit: OPEC Crude Production



Source (s): OPEC, AHL Research

ARIF HABIB LIMITED

Brent



Exploration and Production

Attractive Discounts Warrant Attention

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
7,997	14.7%	4	21.5%	Over Weight

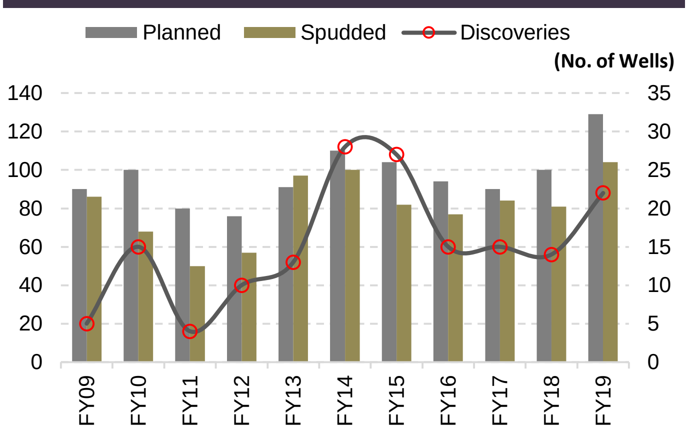
Key Investment Theme

- **Pakistan's Hydrocarbon Production:** During FY19, Pakistan's oil production remained stable at 89,030 bopd against 89,197 bopd during FY18. However, gas production portrayed a slight decline of 1.5% YoY clocking-in at 3,936 mmcfd in FY19 vis-à-vis 3,997 mmcfd in FY18. For FY20, we expect higher production flows from KPD-TAY, Adhi, Mari and TAL Block.
- **Exploration Targets:** The local E&P companies spud a total of 104 wells out of targeted 129 wells, which consists of 37 exploratory and 67 development/appraisal wells during FY19. Out of the total wells drilled, 22 oil & gas discoveries were made. That said, 92 wells (52 exploratory and 40 development/appraisal wells) are planned to be spud by domestic E&P companies in FY20.
- **Trading at Cheap Valuations:** The AHL E&P sector is currently trading at a PER of 5.1x based on FY20E earnings expectations compared with a PER of 7.2x of the KSE-100 Index and a five year historical PER of 8.5x of the sector. The profitability of the AHL E&P universe is expected to surge by 10% YoY in FY20.
- **Dependency on PKR/USD parity and Oil Prices Movement:** For AHL E&P Universe, Pak Rupee depreciation against greenback bodes well for profitability. Thus, every 5% Pak Rupee depreciation will have a 2% positive impact on AHL E&P Universe's earnings and vice-versa. Meanwhile, companies in the E&P Universe rely on Arab Light price. Therefore, a USD 5/bbl change in oil price will have a 5% and 7% impact on the AHL E&P Universe bottom-line for FY20 and FY21, respectively.

Key Risks

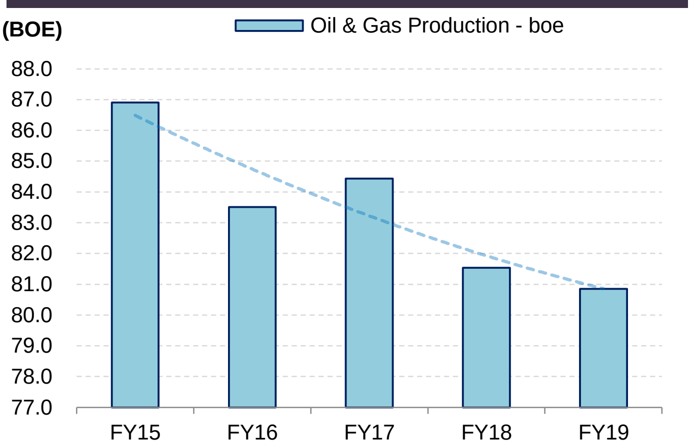
- Sharp Pak Rupee appreciation against Greenback and drastic fall in oil prices.
- Unfavorable decision of windfall levy in court of law.
- Inability to expand hydrocarbon reserves and low reverse replacement ratio (RRR).
- Prolonged structural issues delaying new discoveries from coming online.

Exhibit: Planned & Spudded Wells and Discoveries



Source (s): PPIS, AHL Research

Exhibit: Country's Oil and Gas Production



Source (s): PPIS, AHL Research

Exploration and Production

ARIF HABIB LIMITED

Oil Price Sensitivity

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
7,997	14.7%	4	21.5%	Over Weight

Case-1: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-20	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2020	2021	2020	2021	2020	2021	2020	2021
PPL	130.6	137.2	5.1	Buy	20.8	16.1	2.00	3.00	6.3	8.1	2%	2%
OGDC	135.2	172.0	27.3	Buy	23.1	22.4	9.25	9.00	5.8	6.0	7%	7%
MARI	1,328.4	1,224.7	(7.8)	Hold	223.3	178.3	6.25	6.25	5.9	7.4	0%	0%
POL	440.7	398.5	(9.6)	Hold	40.8	42.5	36.00	38.25	10.8	10.4	8%	9%

With USD 40/bbl in FY20 and going forward

Case-2: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-20	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2020	2021	2020	2021	2020	2021	2020	2021
PPL	130.6	155.9	19.4	Buy	22.7	21.2	2.00	4.00	5.8	6.2	2%	3%
OGDC	135.2	183.4	35.7	Buy	26.3	26.6	10.50	10.75	5.1	5.1	8%	8%
MARI	1,328.4	1,375.1	3.5	Hold	226.7	216.6	6.25	6.25	5.9	6.1	0%	0%
POL	440.7	444.4	0.8	Hold	47.9	51.1	44.00	45.96	9.2	8.6	10%	10%

With USD 50/bbl in FY20 and going forward

Base Case: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-20	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2020	2021	2020	2021	2020	2021	2020	2021
PPL	130.6	171.9	31.6	Buy	24.7	25.3	3.00	5.00	5.3	5.2	2%	4%
OGDC	135.2	194.8	44.1	Buy	29.9	30.6	12.00	12.25	4.5	4.4	9%	9%
MARI	1,328.4	1,501.8	13.1	Buy	230.5	251.9	6.25	6.25	5.8	5.3	0%	0%
POL	440.7	489.0	11.0	Buy	56.0	59.6	50.00	53.66	7.9	7.4	11%	12%

With USD 60/bbl in FY20 and going forward

Case-4: Oil Prices Assumption (USD/bbl) and Fair Values

Code	Current Price	TP Dec-20	Upside (%)	Stance	EPS (PKR)		DPS (PKR)		P/E (x)		DY (%)	
					2020	2021	2020	2021	2020	2021	2020	2021
PPL	130.6	186.5	42.8	Buy	26.2	28.7	3.00	6.00	5.0	4.6	2%	5%
OGDC	135.2	205.6	52.1	Buy	32.7	34.4	13.00	13.75	4.1	3.9	10%	10%
MARI	1,328.4	1,621.2	22.0	Buy	233.4	278.9	6.25	6.25	5.7	4.8	0%	0%
POL	440.7	531.4	20.6	Buy	62.1	67.9	56.00	61.12	7.1	6.5	13%	14%

With USD 70/bbl in FY20 and going forward

Oil & Gas Development Co. Ltd.

Old Lion Stands Tall

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
OGDC	194.83	135.19	44.1%	BUY

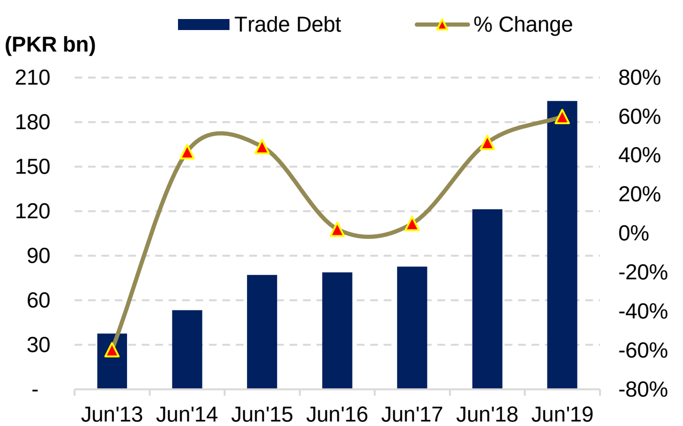
Key Investment Theme

- **Production & Developmental Projects:** The company's historic 3-Yr oil production shows a CAGR of 0.2%, contributed by Adhi, Kunnar Pasakhi Deep, Chanda and Rajian. Whereas, 3-Yr Gas production CAGR portrays a fall of 1.3%, owing to natural decline at Qadirpur, Bhit, Miano, Dakhni and Manzalai. For Nashpa Compression project, EPCC contract has been awarded with expected completion target of Jun'20. Meanwhile, installation of gas processing facilities at Dhok Hussain has been completed while laying of gas pipeline by SNGP is pending. Additionally, after reallocation of Jhal Magsi gas by the government for third party sale, the company is in process of finding a buyer.
- **Planned Operations & Activities for FY20:** The company has planned to drill 18 exploratory & appraisal wells followed by 8 developmental and 4 re-entry wells. At present the company is working on Shale Pilot Project for which the company will undergo drilling of Shale well in future. Moreover, the company was awarded 4 blocks (3 operated and 1 non-operated) in a recent offering by the government.
- **Surge in Gas Reserves:** According to PPIS Reserves, gas reserves of OGDC have witnessed a jump of 29% YoY in Jun'19 settling at 7,264 bcf from 5,645 bcf in SPLY. This surge was attributable to a rise in gas reserves of Mela, Nashpa, Uch, Pasakhi Deep and Qadirpur.
- **Trading at the Cheapest PE Multiple:** The stock is currently trading at an implied oil price of USD 14.45/bbl as compared to Arab Light Price of USD 68.73/bbl with FY20 PER of 4.5x and PB of 0.8x along with a dividend yield of 9%. We expect the company to post earnings of PKR 29.95/share and PKR 30.59/share in FY20 and FY21, respectively.

Key Risks

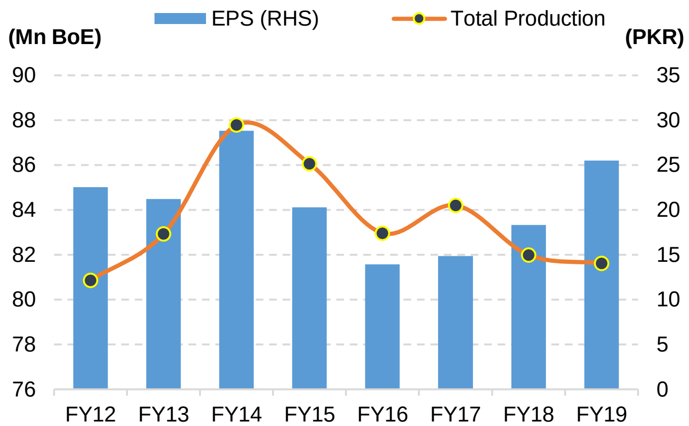
- Higher exposure to circular debt (PKR 194bn as of FY19).
- Drastic decline in oil prices tagged with higher Pak Rupee appreciation against USD.
- Higher cost of one-offs such as impairments and dry wells.
- Significant drop in production from Nashpa and TAL.

Exhibit: OGDC's Circular Debt Position



Source (s): Company Financials, AHL Research

Exhibit: OGDC BoE sold and EPS



Source (s): Company Financials, AHL Research

Oil & Gas Development Co. Ltd.

Old Lion Stands Tall

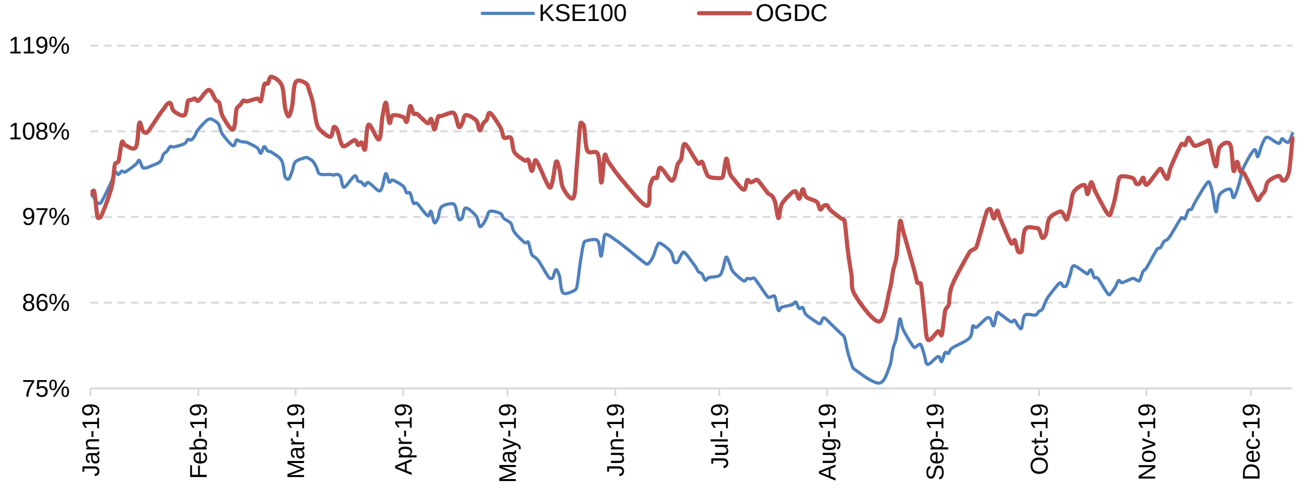
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	261,481	289,302	302,843
Gross Profit	167,062	191,633	197,727
Operating Profit	150,433	166,646	171,894
Finance Cost	1,693	1,724	1,770
Post Tax Profit	118,386	128,797	131,552
Balance Sheet			
Shareholder's Equity	625,365	701,398	786,765
Trade and Other Payables	72,643	79,069	82,770
Total Liabilities	141,232	155,407	166,634
Current Assets	509,786	580,272	652,924
Non-Current Assets	256,811	276,533	300,475
Total Assets	766,597	856,805	953,399

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	27.5	29.9	30.6
Dividend	PKR	11.0	12.0	12.3
Book value	PKR	145.4	163.1	182.9
Price to Earning	x	4.8	4.5	4.4
Price to Book	x	0.9	0.8	0.7
Net Margins	%	45.3	44.5	43.4
Dividend Yield	%	8.4	8.9	9.1

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Pakistan Petroleum Ltd.

Exploring Its Way Forward

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
PPL	171.94	130.64	31.6%	BUY

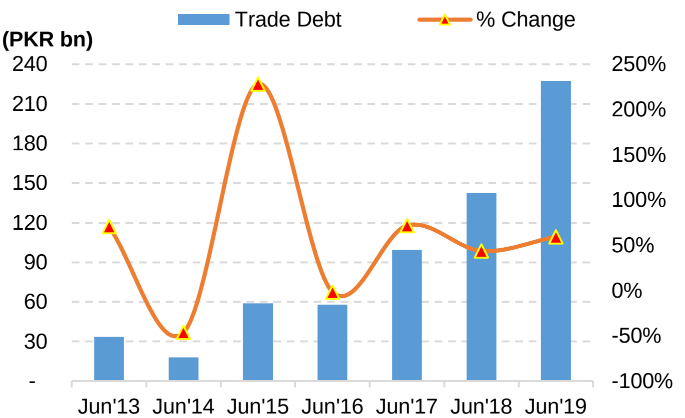
Key Investment Theme

- **Update on Production & Development Projects:** PPL displayed a historic 3-Yr oil production CAGR of 2.7%, contributed by Nashpa, Adhi, Makori East and Maramzai. Similarly, 5-Yr gas production CAGR showed improvement of 1.2%, amid increased production from Kandhkot, Maramzai, Adhi and Adam. We expect uptick in oil production by 9% YoY in FY20, amid addition of Benari, Unarpur, Dharian, Adhi South X-1, Dhok Sultan and Makori Deep-2 to the production system tagged with increase in production from regular fields like Gambat South, TAL, Nashpa and Adhi Block. However, we expect gas production to decline slightly by 2% YoY, owing to expectation of a natural decline in gas production from Sui and Qadirpur. Additionally the company is commissioning phase II of GPV-IV plant in Gambat South Block after completion of phase I. After completion the plant will produce 45 mmcfd of gas.
- **Earnings to Increase by 9% YoY in FY20:**The company is expected to exhibit a 3-Yr CAGR of 4.1%. The profitability is expected to clock-in at PKR 24.67/share in FY20 amid i) higher oil production, ii) higher average oil prices and iii) higher Sui wellhead price. At present, the stock is trading at FY20 PE of 5.3x and PB 1.0x along with a dividend yield of 2%.
- **Outlook on Future Operations:** During FY20 the company plans to 20 spud wells (10 exploratory and 10 developmental). Furthermore, the company has commenced drilling at Block-8 in Iraq. Moreover, the company has provisionally been granted Punjab Block in 1QFY20. The company has also farmed-in Pezu Block from OGDC. However, Bela West was farmed-out partially on account of higher risks and costs. Furthermore, the company is diversifying into mineral mining projects.

Key Risks

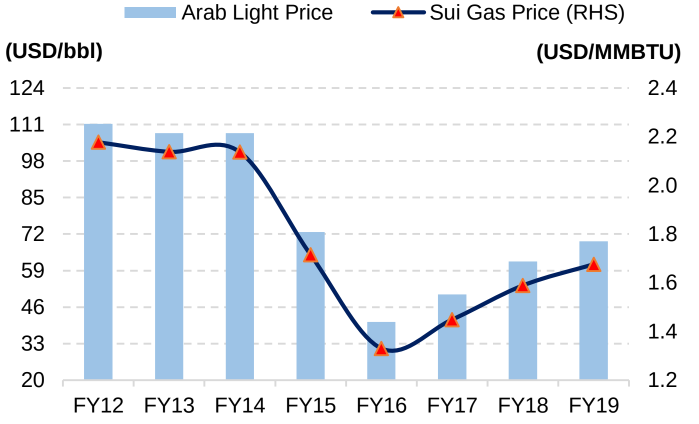
- Circular debt continuously rising (PKR 227bn in FY19 vis-à-vis PKR 143bn in FY18) .
- Unfavorable terms of mining lease, especially in Sui, Adhi and Kandhkot.
- Depletion of exploration portfolio.

Exhibit: PPL's Circular Debt Position



Source (s): Company Financials, AHL Research

Exhibit: Arab Light vs. Sui Gas Price



Source (s): Bloomberg, OGRA, AHL Research

Pakistan Petroleum Ltd.

Exploring Its Way Forward

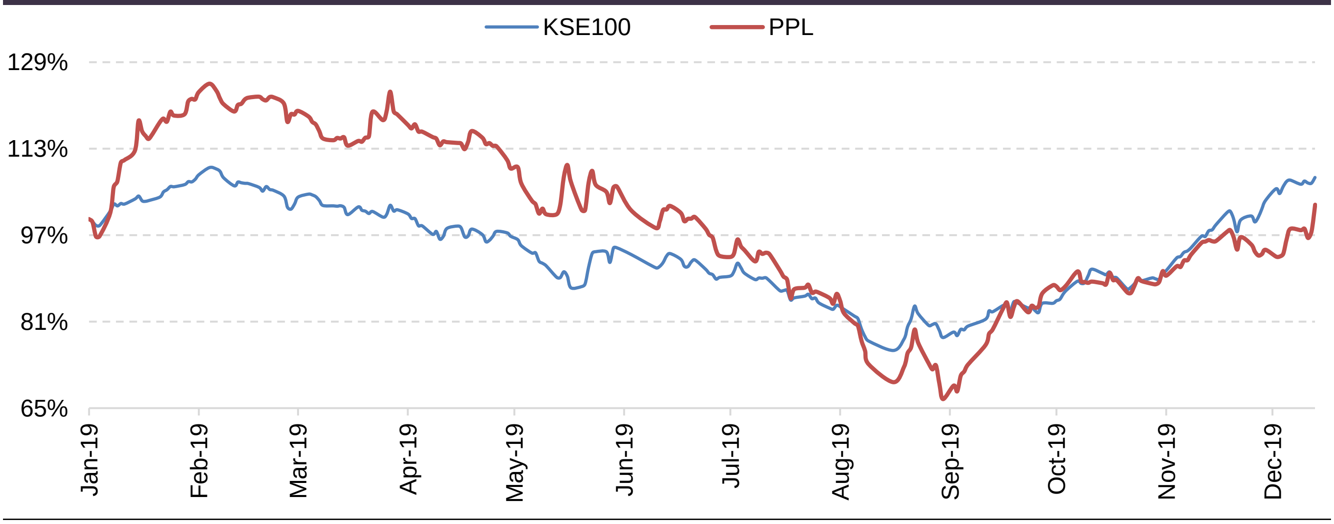
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	163,890	190,321	196,799
Gross Profit	99,408	118,532	120,075
Other Income	16,528	7,227	8,449
Finance Cost	741	935	1,059
Post Tax Profit	61,632	67,118	68,831
Balance Sheet			
Shareholder's Equity	298,609	362,099	417,325
Total Liabilities	159,682	173,888	167,530
Current Assets	252,557	319,069	353,872
Fixed Assets	160,323	171,507	185,572
Non-Current Assets	205,734	216,917	230,983
Total Assets	458,291	535,987	584,855

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	22.7	24.7	25.3
Dividend	PKR	2.0	3.0	5.0
Book value	PKR	109.7	133.1	153.4
Price to Earning	x	5.3	5.3	5.2
Price to Book	x	1.1	1.0	0.9
Net Margins	%	37.6	35.3	35.0
Dividend Yield	%	1.4	2.3	3.8

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Pakistan Oilfields Ltd.

Yield Play

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
POL	489.04	440.67	11.0%	BUY

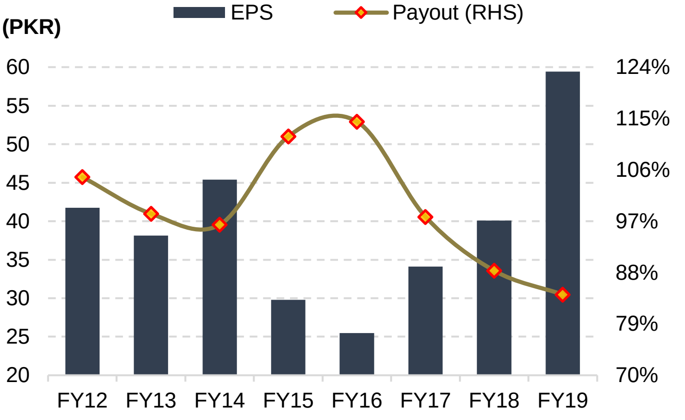
Key Investment Theme

- **Drilling Activity:** The company plans to spud 10 wells in FY20, which includes 3 exploratory wells and 7 developmental wells. Furthermore, Jhandial and Adhi South appraisal is also under pipeline. Moreover, drilling exploratory well Jhandial-2 and developmental wells Ratana-5 are expected to be spud during the FY20. Meanwhile, exploratory wells Balkassar-01 and Mamikhel South-01 and developmental well Adhi-34 are currently under drilling process. Whereas, developmental wells Adhi South-04 and Adhi-33 have reached completion.
- **Production:** The company's 3-Yr historic CAGR of oil production stands at 5%. This is attributable to a rise in production from Adhi, Maramzai and Khaur. Similarly, gas production's 3-Yr historic CAGR was 6%, contributed by Adhi, Maramzai and Makori East.
- **Highest Dividend Yield:** In FY20, the company is expected to have dividend payout and dividend yield of 90% and 11% respectively. The stock is currently trading at an implied oil price of USD 49.18/bbl as compared to Arab Light Price of USD 68.73/bbl with FY20 PER of 7.9 x and PB of 3.3x. We expect the company to post earnings of PKR 55.96/share and PKR 59.62/share in FY20 and FY21, respectively.
- **Uptick in Gas Reserves, while Oil Reserves Remained Stagnant :** As per PPIS Reserves data for Jun'19 the company's gas reserves have grown by 7% YoY amid growth in gas reserves of TAL Block (730 bcf in Jun'19 vis-à-vis 551 bcf in Jun'18) and Adhi Block (312 bcf in Jun'19 against 289 bcf in Jun'18). Meanwhile, company's oil reserves for Jun'19 remained stagnant at 48 mm bbls, attributable to rise in Adhi Block's oil reserves by 38% YoY.

Key Risks

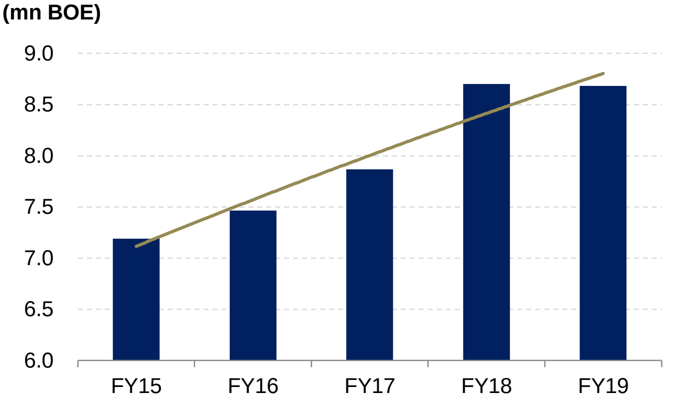
- Production cut from TAL & Nashpa amid natural depletion or prolonged ATA.
- Negative outcome on windfall levy case pending in the court of law.
- Higher elasticity to oil price: for every USD 5/bbl change in price, FY20 earnings alter by PKR 3.58/share or 7%.

Exhibit: POL Adjusted EPS and Payout Ratio



Source (s): Company Financials, AHL Research

Exhibit: POL Oil and Gas Production



Source (s): Company Financials, AHL Research

Pakistan Oilfields Ltd.

Yield Play

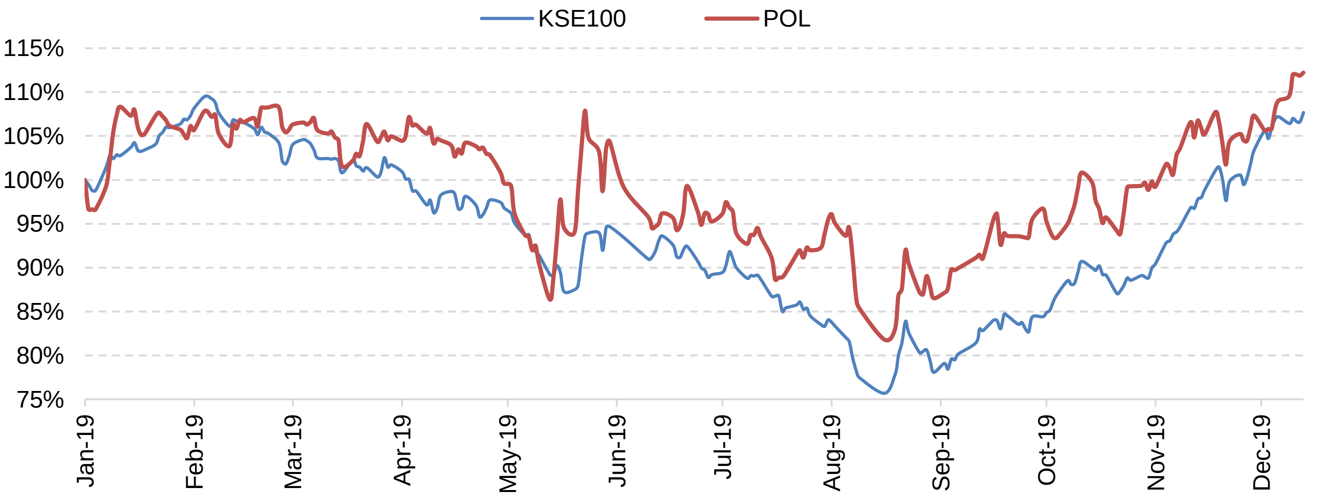
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	43,977	42,836	43,704
Gross Profit	25,410	23,093	23,628
Other Income	7,177	4,884	6,013
Finance Cost	3,774	1,638	1,651
Post Tax Profit	16,872	15,884	16,923
Balance Sheet			
Shareholder's Equity	38,071	38,292	40,451
Total Liabilities	43,419	46,981	49,202
Current Assets	51,429	58,374	64,852
Fixed Assets	7,747	6,699	5,611
Non-Current Assets	30,061	26,899	24,801
Total Assets	81,490	85,273	89,653

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	59.4	56.0	59.6
Dividend	PKR	50.0	50.0	53.7
Book value	PKR	134.1	134.9	142.5
Price to Earning	x	6.8	7.9	7.4
Price to Book	x	3.0	3.3	3.6
Net Margins	%	38.4	37.1	38.7
Dividend Yield	%	12.3	11.3	12.2

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Mari Petroleum Co Ltd.

Breaching the Threshold

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
MARI	1,501.8	1,328.4	13.1%	BUY

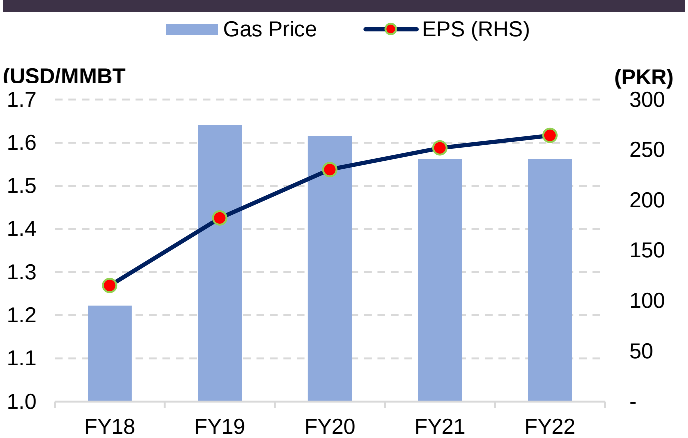
Key Investment Theme

- **Highest Reserve Life in the AHL Universe:** As per the Oil & Gas Reserves Reports for Jun'19 of PPIS, reserve life for MARI is expected to be 19 years. In terms of gas reserves, Mari Gas Fields (MGF's) reserve life remained stable at 20 years due to increase in gas reserves to 4,942 bcf in Jun'19 as compared to 4,885 bcf in FY18.
- **Earnings to Clock-in at PKR 230.50/share in FY20: E**arnings are expected to grow at a 3-Yr CAGR at 13.2%. We anticipate the company to post a bottom-line of PKR 230.50/share and PKR 251.91/share in FY20 and FY21, respectively. Major reasons behind this growth include i) entitlement factor at 100% during FY20, and ii) attractive pricing for incremental production from MGF under the Petroleum Policy 2012.
- **Oil & Gas Production Update:** The company has a historic 3-Yr gas production CAGR of 4%. Whereas, historic 3-Yr oil production CAGR drop by 5%. During FY19, MARI's gas production remained stable at 705mmcfd compared to SPLY. This comes on the back of uptick of 1% YoY in Mari Field's gas production, settling 673 mmcfd vis-à-vis 667 mmcfd in FY18. Meanwhile, oil production declined to 1,110 bopd in FY19 against 1,490 bopd in FY18, down by 26% YoY. This decline was mainly due to dip in oil production from Halini, Halini Deep, Kalabagh and Ghauri by 21%, 24%, 46% and 52% YoY, respectively.
- **Future Outlook:** The company has acquired 25% stake in Bela West from PPL. Furthermore, the company is in process of acquiring greater working interest in Tirah, Orakzai, Ranipur and Lakhi Rud from OGDC. Additionally, the company has applied for Exploration License in Zarrar Block (Indus Offshore). On top of this the company is considering farm-in opportunities in Iraq and Tajikistan. Furthermore, with an investment of USD 1mn, MARI will establish a wholly owned subsidiary company in Dubai Free Zone for expanding its footprint in other countries for operations in oil, gas and associated services.

Key Risks

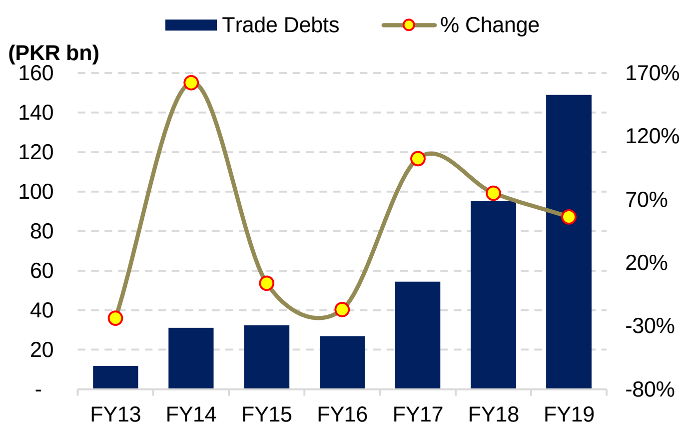
- Mounting trade debts: GIDC amount stands at PKR 149bn in Jun'19.
- Disruption of gas production from Mari field.

Exhibit: MARI's Gas Price vs. EPS



Source (s): Company Financials, AHL Research

Exhibit: MARI's Trade Debts



Source (s): Company Financials, AHL Research

Mari Petroleum Co Ltd.

Breaching the Threshold

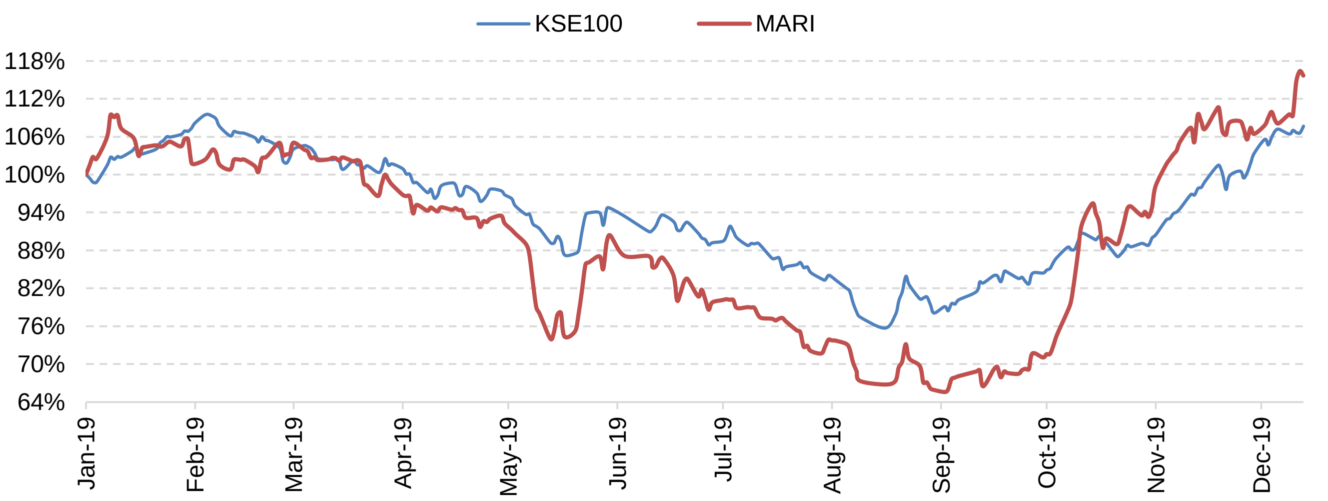
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	59,448	72,397	78,089
Gross Profit	40,161	50,225	54,199
Operating Profit	33,743	45,248	48,874
Other Income	1,767	1,551	2,445
Post Tax Profit	24,327	30,750	33,605
Balance Sheet			
Shareholder's Equity	63,607	93,644	126,415
Trade and Other Payables	146,398	147,612	159,218
Total Liabilities	156,455	157,670	169,275
Current Assets	183,655	210,204	249,672
Non-Current Assets	36,407	41,110	46,018
Total Assets	220,062	251,314	295,690

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	182.4	230.5	251.9
Dividend	PKR	6.0	6.3	6.3
Book value	PKR	524.5	702.0	947.6
Price to Earning	x	5.0	5.8	5.3
Price to Book	x	1.7	1.9	1.4
Net Margins	%	40.9	42.5	43.0
Dividend Yield	%	0.7	0.5	0.5

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Fertilizer

Continuously Passing on

Fertilizer

Continuously Passing On

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
3,308	13.8%	6	46.8%	Over Weight

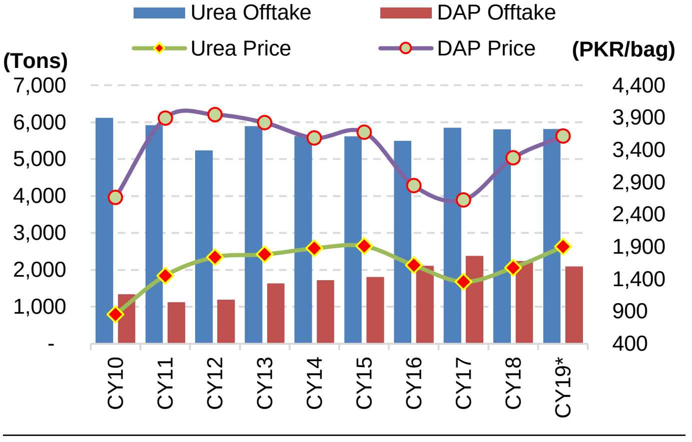
Key Investment Theme

- **Agriculture Performance & Fertilizer Offtake:** Sector contribution in the GDP of Pakistan declined by 0.6% YoY in FY19 to 18.5% as compared to 19% YoY in FY18. Overall slowdown in economy coupled with decline in major crops alongside lower cotton crop were the major contributor towards this subdued performance. Going forward, we expect urea offtake to clock-in at 5.9mn tons in CY20 while DAP offtake is expected at 2.0mn tons.
- **Pricing Power:** During CY19, pricing power of local manufacturers remained elevated, as urea prices jumped up by 28% YoY to PKR 2,020/bag in CYTD as compared to an average price of PKR 1,576/bag during CY18. The said increase was on account of gas tariff hike for feed and fuel gas along with other cost push inflationary pressures.
- **Inventory - A Cause of Concern?:** Urea inventory in Pakistan was around 1.0mn tons as at 1st Dec'19, while forecasted demand for Dec'19 is expected between 0.8-1.0mn tons. With this, inventory at year end is expected to arrive at ~550k tons (locally produced urea 530k tons). Assuming buffer stock of ~250k tons, we believe that 300k tons will be available for exports. Additionally, in CY20, assumingly RLNG plants operates for 9 months, the estimated inventory (without any exports) by the end of CY20 would be around 650k tons which may challenge local manufacturers pricing power in mid term. Albeit, we cannot rule out the possibility of another export grant in case of excess inventory buildup during CY20.
- **International Urea Prices:** International urea prices have declined sharply to USD 235/ton in Dec'19 (a decline of 21% YoY). However, we expect prices to recover and remain stable by the end of this year as Indian and Brazilian demand is expected to kick-in from the ongoing month.

Key Risks

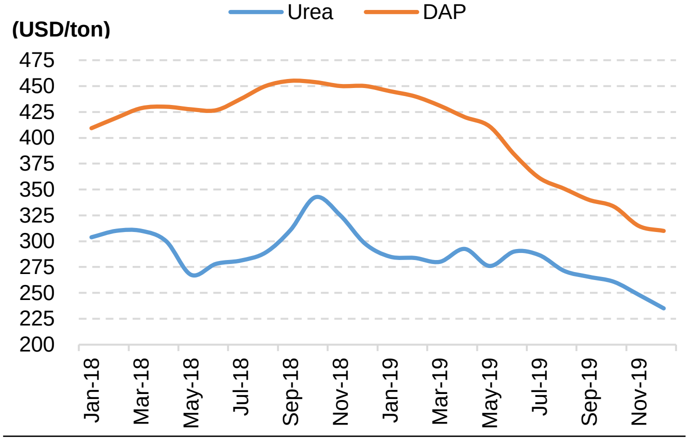
- Gas tariff / GIDC increase and failure to pass on the same to end consumers.
- Excess inventory, denial of permission for exports along with volatility in international prices.
- Negative outcome on GIDC verdict.
- Natural disasters such as floods and earthquake.

Exhibit: Urea and DAP offtake and prices



Source (s): NFDC, AHL Research

Exhibit: International Urea and DAP prices



Source (s): Bloomberg, AHL Research

Fauji Fertilizer Company Ltd.

Operational Excellence

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
FFC	130.00	105.29	23.5%	BUY

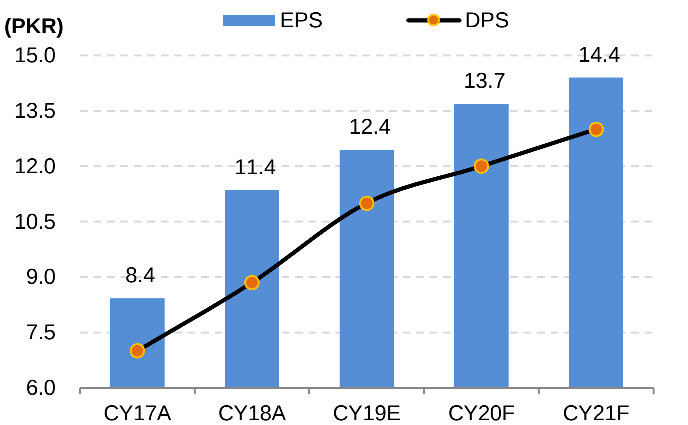
Key Investment Theme

- **5-yr Earnings CAGR of 7%:** Given a diversified portfolio of business in banking, energy and FMCG sectors, we expect the company's profitability to grow at 5-yr CAGR of 7% to PKR 15.96/share in CY23. Major contributor towards profitability growth will be stable core business along with dividend income from AKBL, FFBL and FFCEL.
- **Urea Offtake to Remain Stable:** Stable urea offtake (average of 2.4mn tons and 121% utilization level during last 5 years) along with CY18 and CY19 production at 123% and 122% of rated capacity, we expect urea offtake to clock-in at 2.5mn tons for CY20. In addition, on the trading side we anticipate DAP offtake of the company at 0.45mn tons during CY20.
- **GIDC Verdict Would be Crucial**: The decision by the Supreme Court (SC) regarding GIDC is expected to be a big trigger for companies including FFC and FFBL on either side. The SC may reduce/remove or in principle impose GIDC. Any removal or settlement of the said will result in cost savings for the company (if not passed on completely) along with one-off windfall gains.
- **Payout Ratio:** High dividend payout ratio of (5 year average at 90%) translates into attractive dividend yield of 11.4% for CY20.
- **Thar Energy to Add Further Value:** The company has a 30% stake in Thar Energy Limited (TEL) which is a 330MW local coal based power plant at Thar. We expect earnings and target price contribution of PKR 0.95/share and PKR 3.3/share from the said project. However, due to non-financial closure, we haven't incorporated this project in our valuations yet.

Key Risks

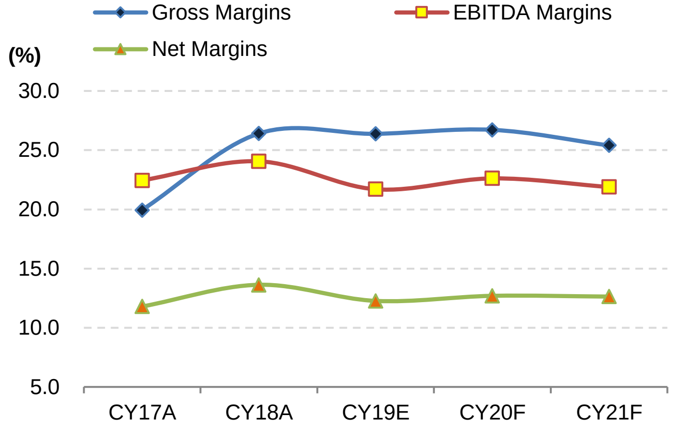
- Gas tariff hike / inability to pass on the same. For every PKR 10/mmbtu increase in feed and fuel stock prices, earnings will erode by PKR 0.38/share (PKR 14.5/bag increase in urea price to neutralize the impact).
- Reduction in price of urea by PKR 50/bag will erode company's EPS by PKR 1.32.

Exhibit: Historical and Expected EPS and DPS



Source (s): Company Financials, AHL Research

Exhibit: Historical and Expected Margins



Source (s): Company Financials, AHL Research

Fauji Fertilizer Company Ltd.

Operational Excellence

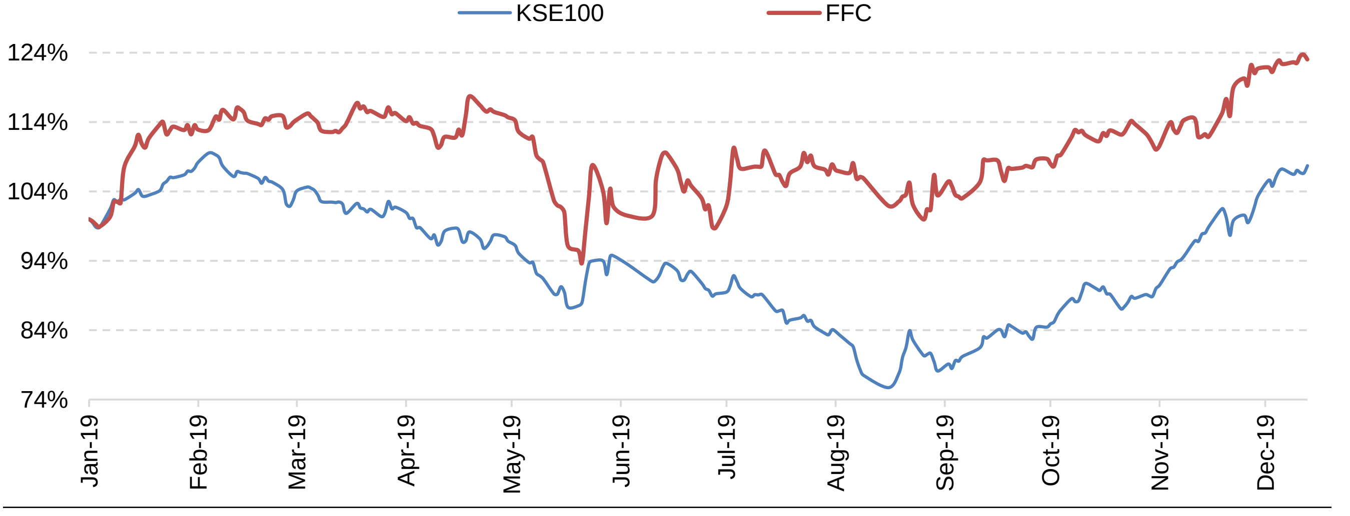
PKR mn	2018A	2019E	2020F
Income Statement			
Sales	105,964	128,854	137,049
Cost of sales	77,986	94,863	100,434
Gross Profit	27,979	33,991	36,615
Finance Cost	1,637	3,242	4,248
Post Tax Profit	14,439	15,823	17,410
Balance Sheet			
Shareholder's Equity	33,383	35,214	37,360
Current Liabilities	99,945	113,456	117,821
Trade and other payables	60,599	69,730	73,838
Non-Current Liabilities	13,162	8,697	6,131
Current Assets	95,354	102,015	104,128
Non-Current Assets	51,135	55,352	57,183

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	11.4	12.4	13.7
Dividend	PKR	8.9	11.0	12.0
Book value	PKR	26.2	27.7	29.4
Price to Earning	x	8.1	8.5	7.7
Dividend Yield	x	9.6	10.4	11.4
Price to Book	%	3.5	3.8	3.6
Gross Margins	%	26.4	26.4	26.7

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Engro Corporation Ltd.

Diversification to Reap Profits

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
ENGRO	403.30	326.66	23.5%	BUY

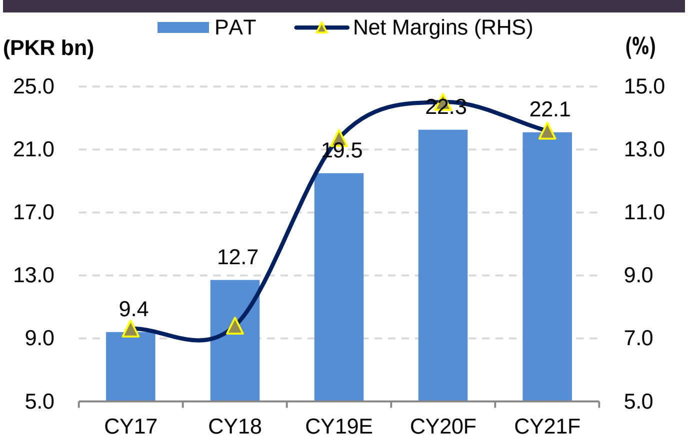
Key Investment Theme

- **Earnings to Grow at a 5-year CAGR of 14%:** We expect the company to post 5-year profitability CAGR of 14.24%. The expected growth is primarily driven by i) CoD of Engro Powergen Thar Power Limited (EPTPL) along with Sindh Engro Coal Mining Company (SECMC), 2) Volumetric growth amid expansion in polymer business including PVC, VCM and hydrogen peroxide leading towards higher profitability, and 3) Steady business operations from Elengy terminal based on fixed RoE, and 4) Engro Powergen Qadirpur, which is likely to remain stable amid secure gas supply.
- **Thar Projects to Reap Profits from CY20:** With the CoD of Sindh Engro Coal Mining Company (SECMC) along with 660MW mine mouth power plant namely Engro Power Thar Limited (EPTL) in Jun'19, profits from the said projects will become fully visible in CY20. We expect earnings contribution in CY20 of PKR 7.44/share and PKR 1.44/share from EPTL and SECMC, respectively.
- **Other Business:** EFERT's profitability is expected to remain stable however, conclusion of concessionary gas rate in 2021 as per the initial agreement could pose a risk to earnings in 2021 while we also cannot rule out the possibility of extension in the time period of concessionary gas till 2023. EPCL's earnings are expected to grow on the back of expansion in PVC and addition of Hydrogen Peroxide and LABSA in product line. Moreover, Engro Powengen Qadirpur, Engro Elengy and Engro Vopak business are expected to remain stable while PKR depreciation will be an upside risk for the businesses. Lastly EFOODS, is expected to remain in hot waters amid overall slowdown in economy tagged with subdued margins on account of lower consumer purchasing power.
- **Future Investments:** The company has a solid cash position, amounting to PKR 60bn as at Sep'19, which may be utilized for future growth projects including RLNG terminal, Naptha cracking facility and further investment in Thar mine mouth power plants in Phase 3 and 4 of CPEC, to name a few.

Key Risks

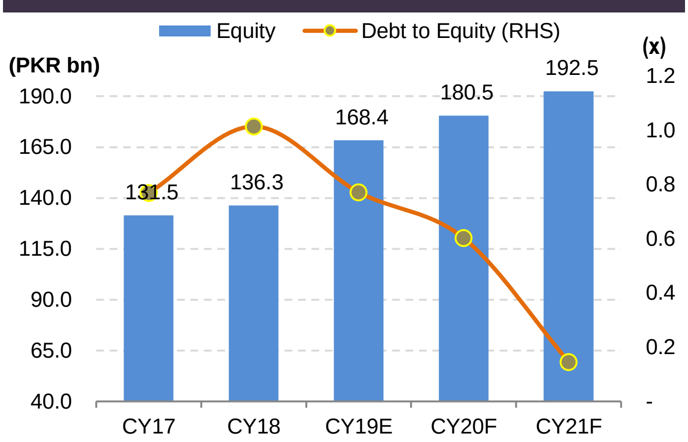
- Gas price hike for the fertilizer sector.
- Volumetric and margin decline in dairy segment.
- Circular debt in power sector.
- Lower than expected International PVC Margins posing a risk to the chemical business.
- Reinvestment risk.

Exhibit: PAT and Net Margins



Source (s): Company Financials, AHL Research

Exhibit: Declining D/E Ratio



Source (s): Company Financials, AHL Research

Engro Corporation Ltd.

Diversification to Reap Profits

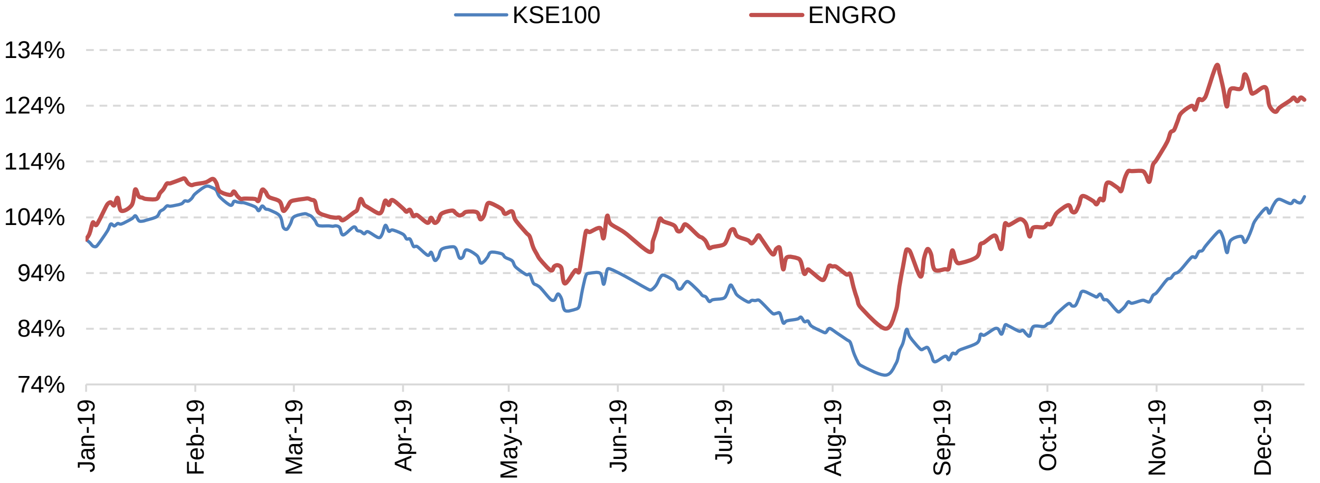
PKR mn	2018A	2019E	2020F
Income Statement			
Sales	171,568	145,842	153,350
Gross Profit	51,108	41,618	42,753
Other Income	9,147	2,228	2,456
Finance Cost	5,453	3,567	3,353
Post Tax Profit	12,708	19,494	22,255
	171,568	145,842	153,350
Balance Sheet			
Shareholder's Equity	185,587	187,768	201,007
Current Liabilities	129,799	166,424	147,691
Trade and other payables	207,568	287,517	263,666
Non-Current Liabilities	152,361	177,500	165,513
Current Assets	240,794	297,784	299,160
Non-Current Assets	393,155	475,285	464,673

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	22.1	33.8	38.6
Dividend	PKR	21.0	25.0	29.0
Book value	PKR	354.9	359.0	384.3
Price to Earning	x	13.5	9.7	8.5
Price to Book	x	0.8	0.9	0.8
Dividend Yield	%	7.0	7.7	8.9
Net Margins	%	7.4	13.4	14.5

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Cement

Cut-throat Competition

Cement

Cut-throat Competition

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
2,292	6.0%	21	34.0%	Under Weight

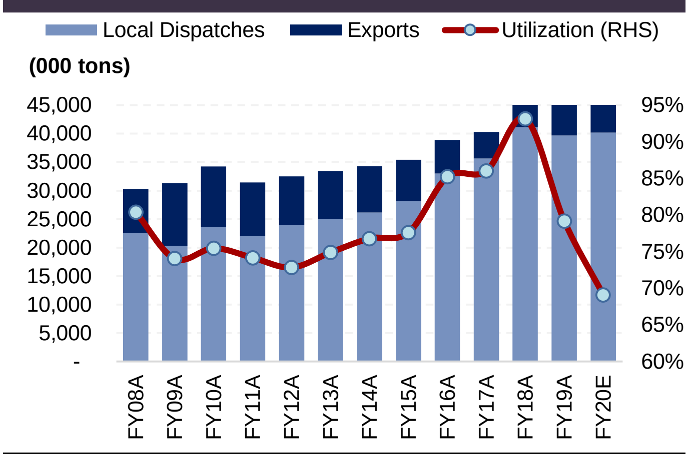
Key Investment Theme

- **Volte-face in Domestic Volumes:** To recall, cement dispatches in the domestic market during FY19 registered a decline of over 3% YoY to 39.8mn tons marked by adoption of fiscal consolidation policies by the government together with contractionary monetary stance of the SBP which curtailed public and private sector demand. Albeit, coming out of a period of economic vulnerability, local cement dispatches are expected to recuperate this year and generate a 3yr forward CAGR of 3% by FY22. In addition, exports of cement and clinker, primarily seaborne exports to African countries, Bangladesh and Sri Lanka, will continue to favour the industry; we forecast a 3-yr CAGR of 6% in exports.
- **Rebound in Prices Appears Dubious Amid Last Round of Capacity Addition:** With the ongoing expansionary spree nearing conclusion, another 7.3mn tons are projected to come online within a quarter (PIOC, LUCK and KOHC adding 2.4mn, 2.6mn and 2.3mn tons, respectively in the North market). These announced expansions are set to take the installed capacity of the sector up by ~12% to 69.2mn tons from 61.93mn tons and as demand is forecast to surpass 47mn tons in FY20, excess capacity is set to go beyond ~21.8mn tons (31%). In the prevailing backdrop of supply side strain, we view prices to succumb to relentless pressure in both regions; case-in-point: prices have come down sharply by PKR 30-40/bag in North and PKR 40-50/bag in South, since end of FY19.
- **Cost Pressures Mount to Unforgiving Levels:** Higher financial charges due to interest rate hikes by the SBP and augmented borrowing to support capacity expansions, higher depreciation expense, devaluation in the Pak Rupee against USD, higher excise duty under the FY20 Budget at PKR 2,000/ton, and upwards adjustment in electricity and gas tariffs are likely to dent margins and profitability of cement manufacturers in FY20. Although cement players will be cushioned by lower coal prices (expected at USD 75/ton in FY20 vs. USD 100/ton in FY19), the benefit will not translate to the bottom-line.

Key Risks:

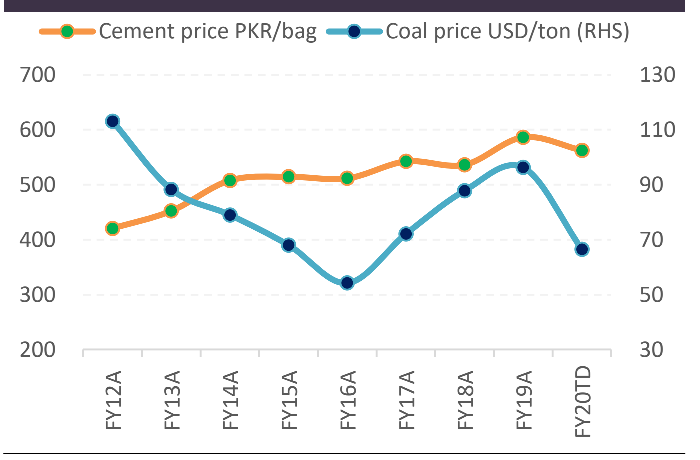
- Further loss of pricing power owing to new additions.
- Unforeseeable costing pressures: PKR depreciation against USD, extension of recent spike in coal prices, higher than expected electricity and gas tariff hikes and delay in interest rate cuts.

Exhibit: Industry to endure oversupply



Source (s): APCMA, AHL Research

Exhibit: Cement and coal prices head south in FY20TD



Source: PBS, Bloomberg, AHL Research

Attock Cement Limited

Chalk Horse of the Cement Sector

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
ACPL	142.66	100.48	41.9%	BUY

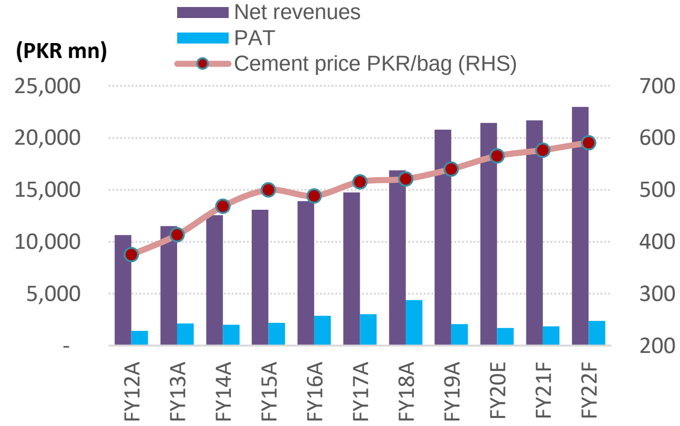
Key Investment Theme

- **Brand Image - A Formidable Defense:** With the economic growth limping and domestic dispatches contracting (by 3% YoY) in the outgoing year, ACPL managed to outshine the sector and post a volumetric growth of 29% YoY in FY19 amid commencement of new plant. As recently as 1QFY20, whereby sector-wide gross margins tumbled to a single digit and in some cases, turned red, ACPL posted solid margins of over 26%. We believe this foreshadows ACPL's ability to flourish in turbulent times. Going forward, the company is expected to leverage its strong brand image (which entails a loyal customer base as well as premium pricing) and generate a 5-Yr forward earnings CAGR of 13% by FY24 to PKR 3,768mn (EPS: PKR 27.42).
- **Insatiable Exports' Growth:** Although cement manufacturers are projected to fiercely contend for market share in the domestic cement space as the current climate affirms the idea of oversupply, while dumping from North also poses a threat to players in South, we view that exports will mend the domestic wreckage. To recall, over the past year ACPL managed to secure massive orders of cement and clinker from markets of Bangladesh, Sri Lanka and East Africa. Whereas latest numbers also suggest that growth in exports would plausibly remain vigorous; we forecast a 3-yr forward CAGR of 6%, which should support overall volumes.
- **ACPL Goes Global :** To recall, ACPL commenced commercial production at its newly constructed 900,000 tons p.a. cement grinding unit in Basra, Iraq. We estimate this project to add PKR 23.15/share to our valuation (60% holding) and generate a PAT of PKR 462mn in FY20; assuming recognition of dividend income, this will add PKR 1.18/share to our FY20 earnings forecast.
- **Top Pick in the AHL Cement Universe :** Given the stock offers a noteworthy 42% upside to our Dec'20 target price of PKR 142.66/share, we recommend BUY.

Key Risks:

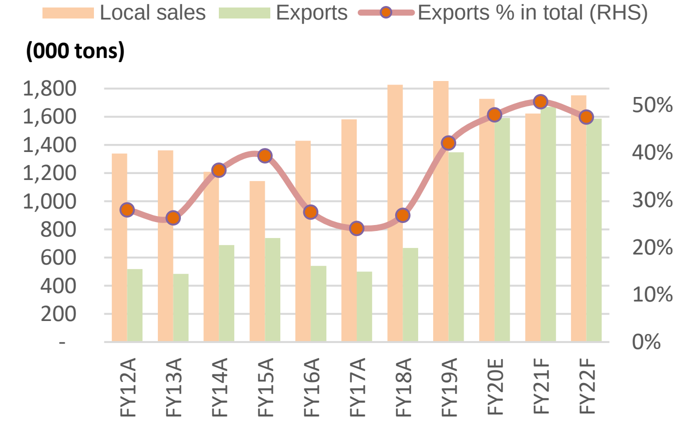
- Cement prices coming under stress; every PKR 5/bag decline will erode earnings for FY20 by PKR 0.67/share (4%).
- Spike in coal prices; every USD 5/ton surge will shred bottom-line in FY20 by PKR 1.80/share (15%).

Exhibit: Strong pricing to aid revenue growth



Source (s): Company Financials, AHL Research

Exhibit: Quantum of exports in total sales to grow



Source (s): Company Financials, AHL Research

Attock Cement Limited

Chalk Horse of the Cement Sector

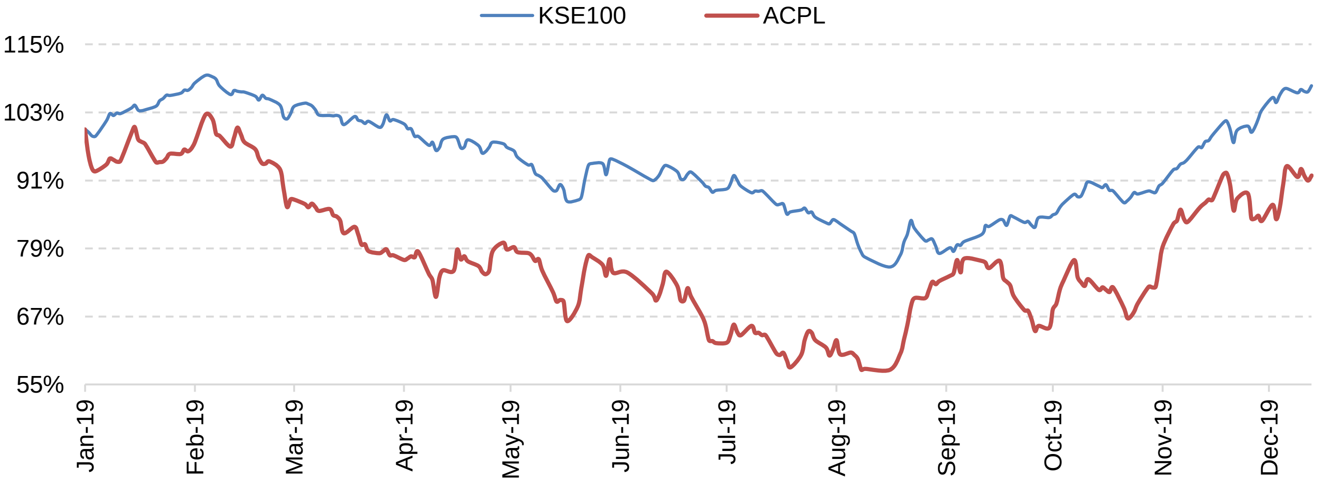
PKR mn	2019A	2020E	2021F
Income Statement			
Sales	20,781	21,439	21,692
Cost of sales	15,978	16,494	16,817
Gross Profit	4,803	4,945	4,875
Finance Cost	648	773	565
Post Tax Profit	2,073	1,721	1,875
Balance Sheet			
Shareholder's Equity	16,099	17,271	18,596
Current Liabilities	8,404	7,460	6,800
Trade and other payables	3,577	3,450	3,401
Non-Current Liabilities	2,814	2,814	2,084
Current Assets	7,647	8,105	8,280
Non-Current Assets	19,670	19,439	19,201

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	15.1	12.5	13.6
Dividend	PKR	4.0	4.0	4.0
Book value	PKR	117.1	125.7	135.3
Price to Earning	x	4.7	8.0	7.4
Price to Book	x	0.6	0.8	0.7
Net Margins	%	10.0	8.0	8.6
Dividend Yield	%	5.6	4.0	4.0

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Lucky Cement Limited

Nearly At The Top

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
LUCK	552.66	424.52	30.2%	BUY

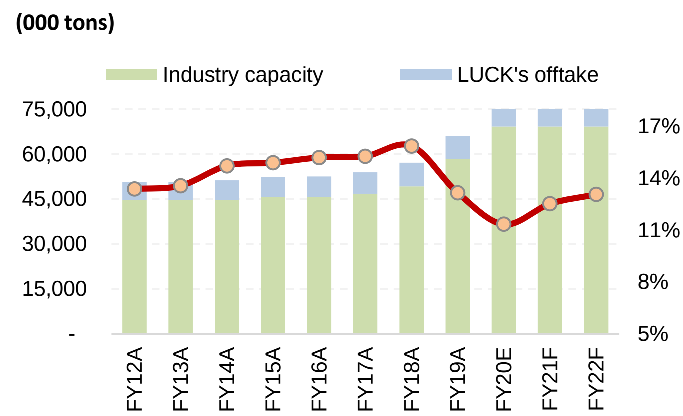
Key Investment Theme

- **Status of Being Number 1 Almost Certain:** Set to become the largest cement player in the country (with a capacity of 11.6mn tons) and grow its diversified portfolio by means of its leverage-free book, LUCK continues to stand out. We eye a solid earnings CAGR of 15% for the company by FY24 to PKR 20,938mn (EPS: PKR 64.75), taking account of the company's chief cement business where we view total dispatches to grow to ~9.4mn tons (5-yr CAGR of 4%) vis-à-vis 7.7mn tons in FY19.
- **A Diversified Portfolio that Warrants Attention:** LUCK's 2.6mn tons brownfield project in Pezu, KPK is expected to commence commercial operations in Dec'19, making it the largest cement player and solidifying its footprint in the country. In addition, the company's PKR 20bn automobile plant in Pakistan alongside South Korean auto giant Kia, is now operational and the launch of Kia "Sportage" and "Picanto" has been received well. Moreover, its 100% owned 660MW coal power plant is projected to kick-off operations in Mar'21. The company has initiated construction activity at the plant site and we have assumed COD in FY22. Finally, the company's 51% share in ICI Pakistan Limited - a listed chemical company - also augments value of the portfolio as ICI has commissioned a Morinaga plant to manufacture infant formula with a nameplate capacity of 12k tons per annum as well as undertaken capacity addition in its soda ash business to 500k tons p.a..
- **Sum of the Parts-based TP of PKR 553/share:** The stock offers a noteworthy 28% upside from last closing to our Dec'20 target price of PKR 552.66/share. We believe a higher P/E multiple for LUCK remains justifiable given its diversified theme with exposure in cements, automobiles, power and chemical.

Key Risks:

- Cement prices tapering off; every PKR 5/bag decline will erode earnings by PKR 1.16/share (5%).
- Drastic ascent in coal prices; FY20 bottom-line should retreat by PKR 1.79/share (8%) on every USD 5.00/ton uptick in average coal prices.
- Delay in materialization of key projects.

Exhibit: LUCK's share to contract but remain highest



Source (s): Company Financials, AHL Research

Exhibit: Sum of the parts valuation

Sum of the Parts	Value	Discount	TP
Core	60,851	-	188.2
ICI	31,599	30%	68.4
Iraq Project	12,804	0%	39.6
Congo Project	1,738	0%	5.4
660 MW Coal Power Plant	66,164	0%	204.6
Wind Power	2,921	0%	9.0
KIA motors	12,119	0%	37.5
	188,195		**552.66**

Source: AHL Research

Lucky Cement Limited

Nearly At The Top

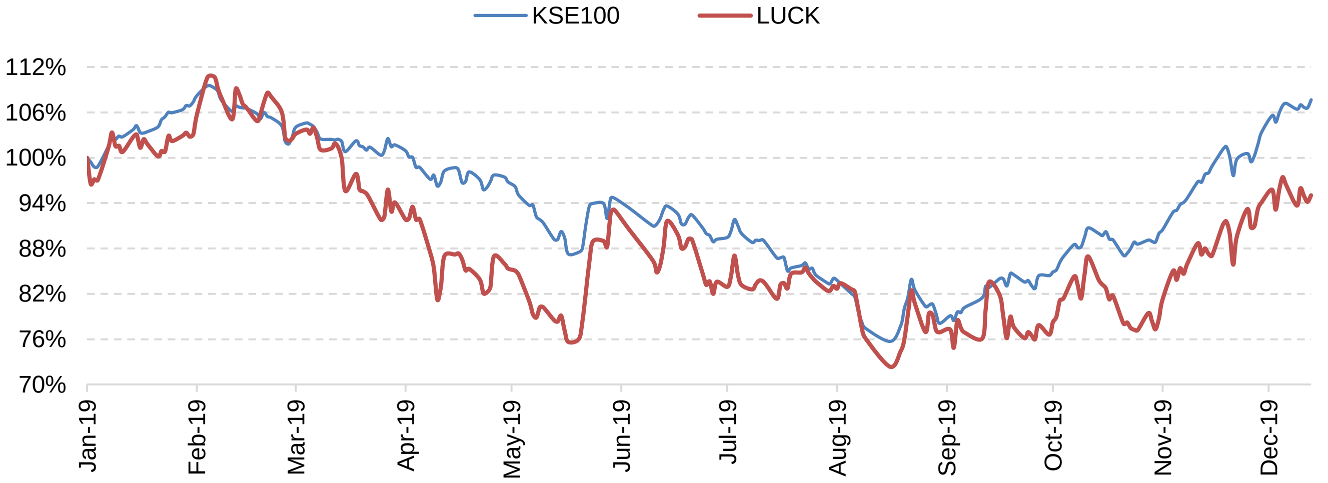
PKR mn	2019A	2020E	2021F
Income Statement			
Sales	48,021	46,821	53,049
Gross Profit	13,984	9,690	11,042
Other Income	3,242	3,700	6,128
Other Charges	1,048	1,021	1,157
Post Tax Profit	10,490	6,626	9,217
Balance Sheet			
Shareholder's Equity	94,318	98,843	106,443
Current Liabilities	23,578	19,673	21,990
Trade and other payables	2,059	2,007	2,274
Non-Current Liabilities	7,193	7,335	7,480
Current Assets	33,379	28,869	33,893
Non-Current Assets	91,710	96,982	102,019

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	32.4	20.5	28.5
Dividend	PKR	6.5	5.0	9.0
Book value	PKR	291.7	305.7	329.2
Price to Earning	x	11.7	20.7	14.9
Price to Book	x	1.3	1.4	1.3
Gross Margins	%	29.1	20.7	20.8
Dividend Yield	%	1.7	1.2	2.1

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

DG Khan Cement Limited

FY20: Staring into abyss

PSX Code	Target Price (Dec'20)	Market Price	Downside Potential	Stance
DGKC	66.75	75.51	-11.6%	Sell

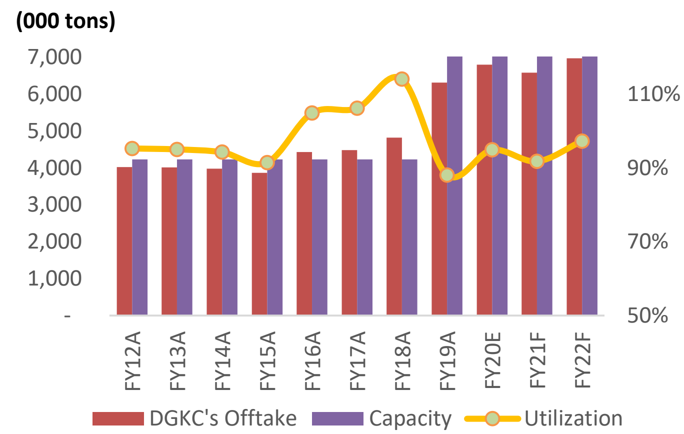
Key Investment Theme

- **Utilization and Market Share to Pull Back as New Capacities Add On:** Despite undertaking an expansion of 2.8mn tons in the prior year, utilization of the company is expected to remain relatively lower (averaging at ~95% in the next three years vis-à-vis 103% between FY17-FY19). Pertinently, expansion by other players such as CHCC (2.1mn tons; Jan'19), MLCF (2.2mn ton; Mar'19) and POWER (2.5mn tons; Dec'19), as well as forthcoming additions of 7.3mn tons, tagged with slower demand growth, will keep DGKC's utilization low. Consequentially, market share of the company is expected to contract from 10.8% (past 3-yr average) to an average of 9.8% between FY20-FY21.
- **Operationally Weaker:** Augmented costs associated with the new plant i.e. higher depreciation charge, weaker prices (particularly in North as domestic manufacturers slash prices to pump higher volumes; and slow infection in South given dumping from North), alongside depreciation in the PKR-USD parity - already trading at levels much weaker than the prior year, have effectively eroded gross margins of DGKC (at -5.9% in 1QFY20). With that said, we believe coal should provide respite in FY20, although, to no effect as without considerable recovery in cement prices (which appears unlikely in the immediate term), we project DGKC to post an operating loss in the ongoing year.
- **Leverage Position a Cause of Concern:** DGKC remains highly levered with its latest financials indicating a debt to equity of 53% (borrowing of PKR 36bn as of 1QFY20 with short term borrowing at PKR 16bn). Going forward, with the company struggling to generate earnings in the midst of derailed pricing power and manifold growth in costs, DGKC's interest coverage is expected to contract from 1.6x in FY19 to 0.2x in FY20.
- **SELL Recommendation at Current Levels:** We have a "SELL" stance on the stock with our sum of the parts Dec'20 target price arriving at PKR 66.75/share.

Key Risks:

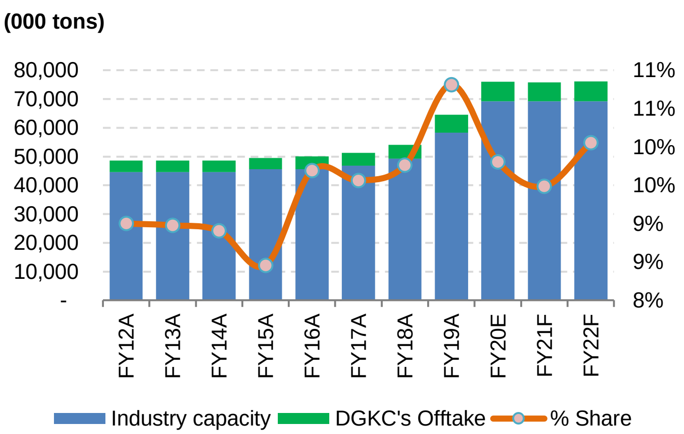
- Waning cement prices; every PKR 5/bag dip will erode earnings for FY20 by PKR 0.81/share (11%).
- Spike in coal prices; every USD 5/ton surge will shred bottom-line in FY20 by PKR 1.69/share (23%).

Exhibit: DGKC's utilization to slow down



Source (s): Company Financials, AHL Research

Exhibit: Market share to contract amid competition



Source (s): Company Financials, AHL Research

DG Khan Cement Limited

FY20: Staring into abyss

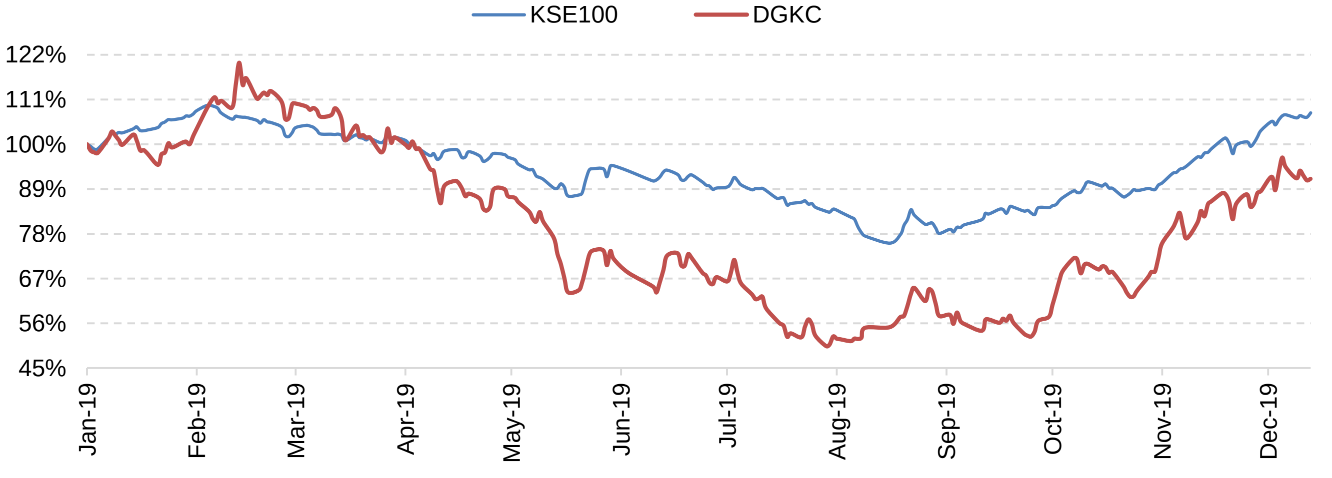
PKR mn	2019A	2020E	2021F
Income Statement			
Sales	40,517	39,410	43,951
Gross Profit	5,362	1,799	6,620
Selling expenses	1,306	1,985	2,074
Financial charges	3,304	5,265	4,834
Post Tax Profit / (Loss)	1,610	(3,195)	450
Balance Sheet			
Shareholder's Equity	70,928	67,733	68,183
Current Liabilities	34,247	37,121	39,801
Trade and other payables	8,063	8,774	9,315
Non-Current Liabilities	20,766	15,218	10,389
Current Assets	33,623	33,159	33,939
Non-Current Assets	92,318	86,914	84,435

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	3.7	(7.3)	1.0
Dividend	PKR	1.0	-	-
Book value	PKR	161.9	154.6	155.6
Price to Earning	x	15.4	(10.4)	73.9
Price to Book	x	0.3	0.5	0.5
Gross Margins	%	13.2	4.6	15.1
Dividend Yield	%	1.8	-	-

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Power Generation

Dollar Hedged Return

Power Generation

Dollar Hedged Return

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
2,138	6.8%	17	42.2%	Market Weight

Key Investment Theme

- **Return Hedged Against US Dollar And Inflation:** The power sector of Pakistan has a unique return structure. The return component has a built in immunity against both local and foreign inflation. This unique structure provides a natural hedge to investors against inflation, currency and interest rates. This kind of structure also provides comfort to foreign investors invested in local IPPs.
- **Increasing Demand:** Nine (9) special economic zones (SEZs) being established under the China-Pakistan Economic Corridor (CPEC). As per the document submitted to the Senate Special Committee on CPEC, the total expected demand for these SEZs is 934MW. In addition to this govt's Naya Pakistan Housing Program of 5 million houses will also spur the power demand. As per Central Power Purchasing Agency Guarantee Limited (CPPAG), power demand is expected to grow by 4.1% for next six (6) years; from 21.5K MW in 2019 to 27.6K MW in 2025.
- **Long Term Tariff Structure:** All IPPs have a long term tariff ranging from 20-30 years and power purchaser is bound to pay the Capacity Purchase Price (CPP) to the power producer, regardless of whether electricity is purchased or not during the tariff period. The tariff of power companies is split into two components; i) Capacity Purchase Price (CPP), and ii) Energy Purchase Price (EPP). The CPP component is hedged against US Dollar with no dependency on the load factor of the power generation company. The EPP component is a pass through item which includes the fuel cost and variable operation and maintenance costs.

Key Risks

- Lower power demand due to economic slowdown and delay in CPEC based SEZs.
- Lower than expected PKR depreciation.
- Rising circular debt may prolong the liquidity crisis and keep payout muted.

Exhibit: Tariff Components at Various Stages of Power Supply-Chain

Generation Stage	Transmission Stage	Distribution Stage	Retail Tariff
1) Capacity Purchase Price	Use of System Charge	1) Distribution margin	1) Capacity Purchase Price
2) Energy Purchase Price		2) T & D^ losses (allowed)	2) Energy Purchase Price
3) Variable O&M*		3) Prior year Adjustments	3) Variable O&M
			4) Use of System Charge
			5) Distribution margin
			6) T & D losses (allowed)
			7) Prior year Adjustments

Source (s): NEPRA, AHL Research, *Operation & Maintenance, ^Transmission & Distribution

Power Generation

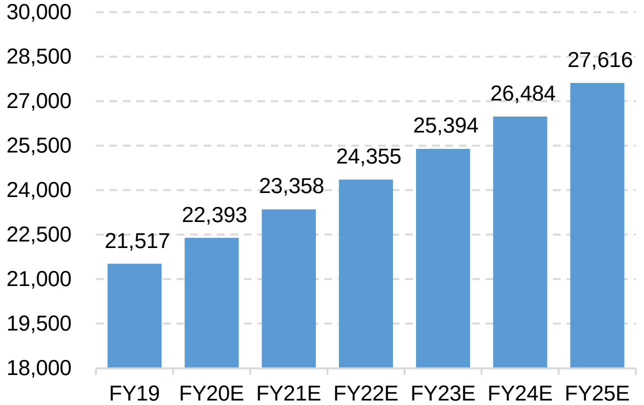
Circular Debt: Still a major Challenge to handle

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
2,138	6.8%	17	42.2%	Market Weight

Major Challenges of Power Sector

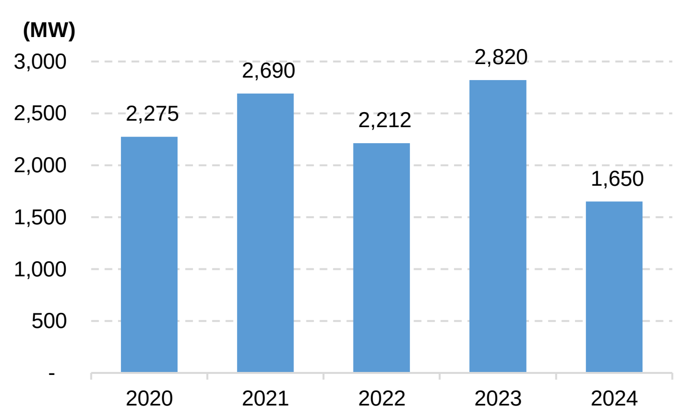
- **Circular Debt:** As per a news report the current level of circular debt has crossed PKR 1,600bn, including PKR 806bn debt of Power Holding (Pvt) Limited (PHPL). In FY19, the annual addition to circular debt was PKR 465bn.
  - **Govt. Actions to Control Circular Debt:** The Power division has submitted a plan to the Economic Coordination Committee (ECC) for reduction in circular debt to PKR 75bn/annum till FY23 from PKR 465bn/annum in FY19. However, given the current govt. policy of load shedding in low recovery areas, the monthly quantum has already decreased to PKR 15bn from PKR 35bn per month.
  - **Major Reasons Behind Accumulation of the Circular Debt:** The reasons behind the circular debt need to address, including i) delay in tariff determination, ii) delay in fuel charges adjustments, iii) T&D losses, iv) poor revenue collection, v) insufficient tariff differential subsidy, and vi) political considerations.
- **Significant Increase in Capacity Payments:** During the last 5 years, over 11,000MW's have been added in to the system. This additional capacity charge, tagged with the PKR depreciation, has pushed up the capacity purchase price. However, with slowdown in power demand amid the challenging macro economic environment, resulted in higher CPP per KWh.
- **Poor Collection and T&D Losses:** The T&D losses in DISCOs coupled with poor recovery and collection during the last few years has created additional pressure on the circular debt. During FY18, the average T&D losses and recovery ratio of all DISCOs arrived at 18.8% and 87.7%, respectively.

Exhibit: Average Peak Demand (MW) Over the Years



Source (s): CPPA (G), AHL Research

Exhibit: ~11,650 Capacity Addition in Next 5-Years



Source (s): NTDC, AHL Research

Power Generation

CPP is Expected to Cross PKR 900bn

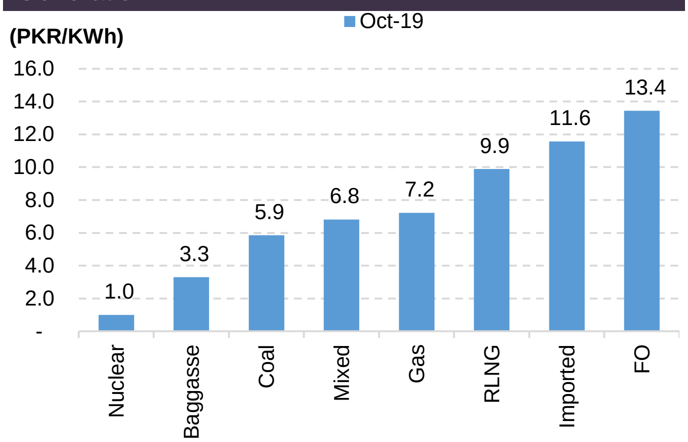
Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
2,138	6.8%	17	42.2%	Market Weight

Tariff Increase is not Enough to Subdued the Impact of Incremental Capacity Payments

- **Capacity Addition of Relative Source of Generation:** As per the NTDC report, the planned capacity addition during the next five (5) years is 11,650MW. Out of which, 3,360MW addition is local coal-based, 1,620MW is imported coal-based, 2,200MW is nuclear-based, 1,852MW is hydel-based, 1,243MW is RLNG-based, 1,002MW is bagasse-based and 100MW is solar-based. Almost 90% of the planned addition is relatively cheaper compared to RLNG (most expensive fuel at present after FO). However, the CPP of the system is expected to increased by 3.3x to PKR 907bn in FY20E compared to PKR 275bn during FY16. The rise in CPP is driven by ~11,000MW addition of capacity along with PKR depreciation.

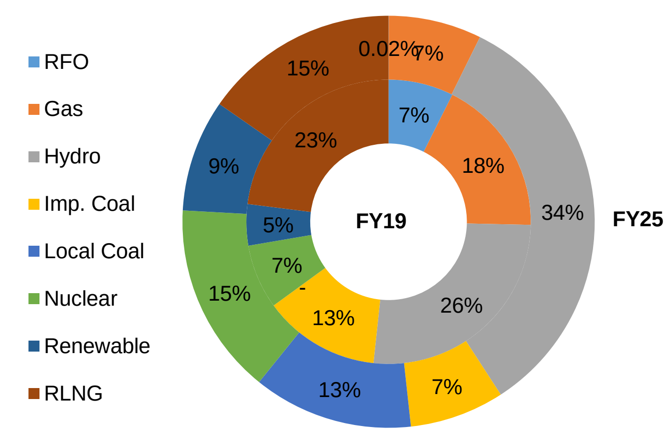
- **Further Increase in Power Tariff is Unavoidable:** As stated above, the capacity payments are expected to increased by 3.3x, hence the govt. has to increase the power tariff to compensate the jump. Having said that, the government has already increased the power tariff by PKR 3.56/KWh (31%) to PKR 15.06/KWh, which is insufficient to overcome the incremental impact of capacity payments, we view.

Exhibit: RFO is the Most Expensive Source of Power Generation



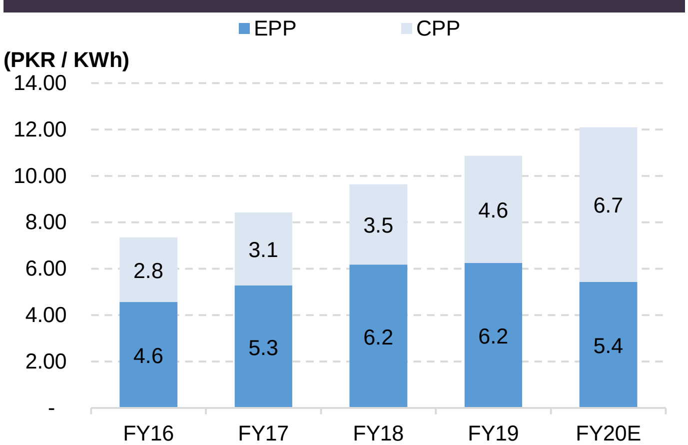
Source (s): NEPRA, AHL Research, Fuel Cost for the month of Oct'19

Exhibit: Share of Nuclear is Expected to Reach at 15% by 2025 in Generation Mix



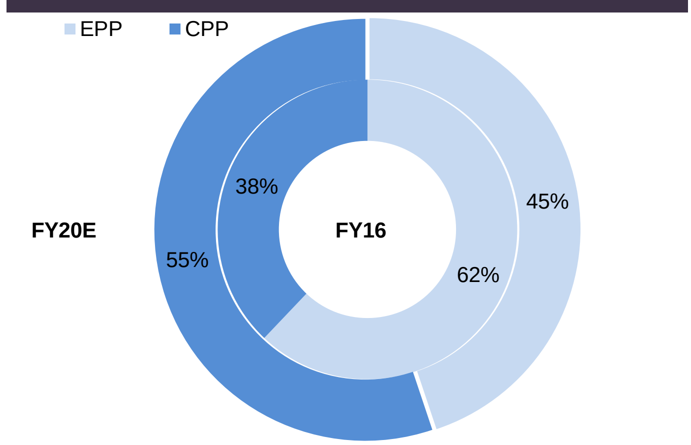
Source (s): NEPRA, NTDC, AHL Research

Exhibit: CPP* to Reach at PKR 6.67/KWh



Source (s): CPPA (G), AHL Research, * Capacity Purchase Price

Exhibit: CPP will be 55% of Total Tariff* by 2020



Source (s): CPPA (G), AHL Research, *Generation Stage

Kot Addu Power Company Ltd.

Multi-fired Power Plant

PSX Code	Target Price (Dec'20)	Market Price	Total Return	Stance
KAPCO	46.80	31.99	79.1%	BUY

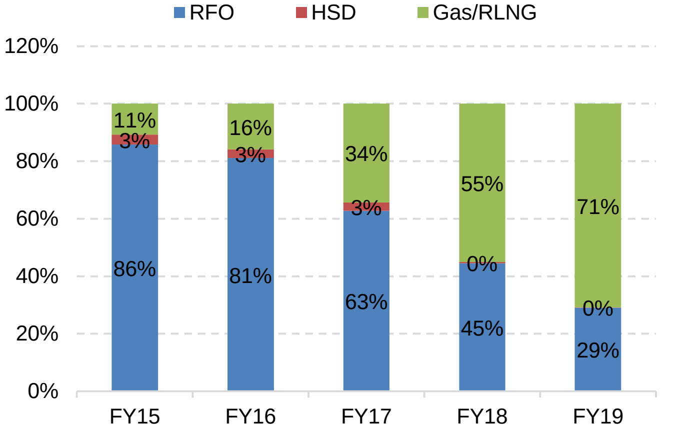
Key Investment Theme

- **Return Hedged Against US Dollar And Inflation:** The power sector of Pakistan has a unique return structure. The return component has a built in immunity against both local and foreign inflation. This unique structure provides a natural hedge to investors against inflation, currency and interest rates. Due to PKR depreciation during FY19, the Capacity Purchase Price (CPP) of KAPCO has witnessed an increase of 12% YoY to PKR 20.1bn.
- **SUKUK-2; KAPCO is Expected to Receive the Highest Portion:** The govt. is trying to curb the circular debt and has already issued a SUKUK of PKR 200bn, while another SUKUK worth PKR 250bn is the pipeline. As of Sep'19, KAPCO's total receivables settled at PKR 132bn, which are the highest amongst all other IPPs and we expect the company to receive the highest portion from SUKUK-2.
- **PPA Extension is Likely:** We expect an extension in the Power Purchase Agreement (PPA) of the company given i) KAPCO is a multi-fired power plant, ii) the plant has an average efficiency of 44% (42.5%-47%), iii) located in the load center, iv) small generation units, v) has a useful life of 5-10 years, and vi) dependency of the Southern Punjab industry on KAPCO. However, we have not incorporated the PPA extension in our valuations.

Key Risks

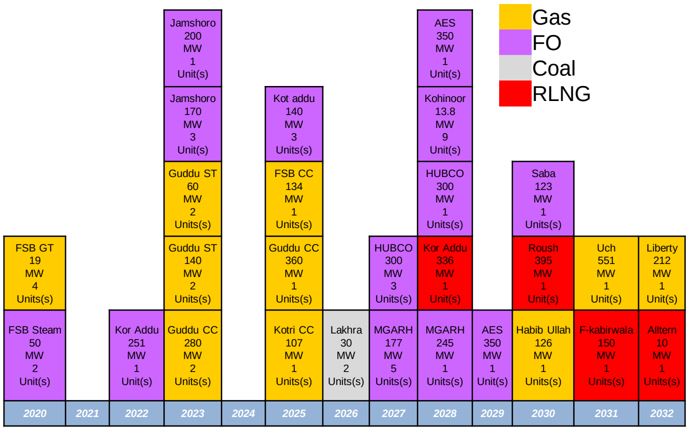
- Lower power demand due to economic slowdown and delay in CPEC based SEZs.
- Lower than expected PKR depreciation.
- Rising circular debt may prolong the liquidity crisis and keep payout muted.
- Possible outcome of Liquidity Damages (LDs) proceedings against the company.
- Extension of PPA on unfavorable conditions.

Exhibit: KAPCO's Generation Mix Tilted Towards RLNG



Source (s): Company Financials, AHL Research

Exhibit: As per NTDC, KAPCO is Available till 2028



Source (s): NTDC, AHL Research

Kot Addu Power Company Ltd.

Multi-fired Power Plant

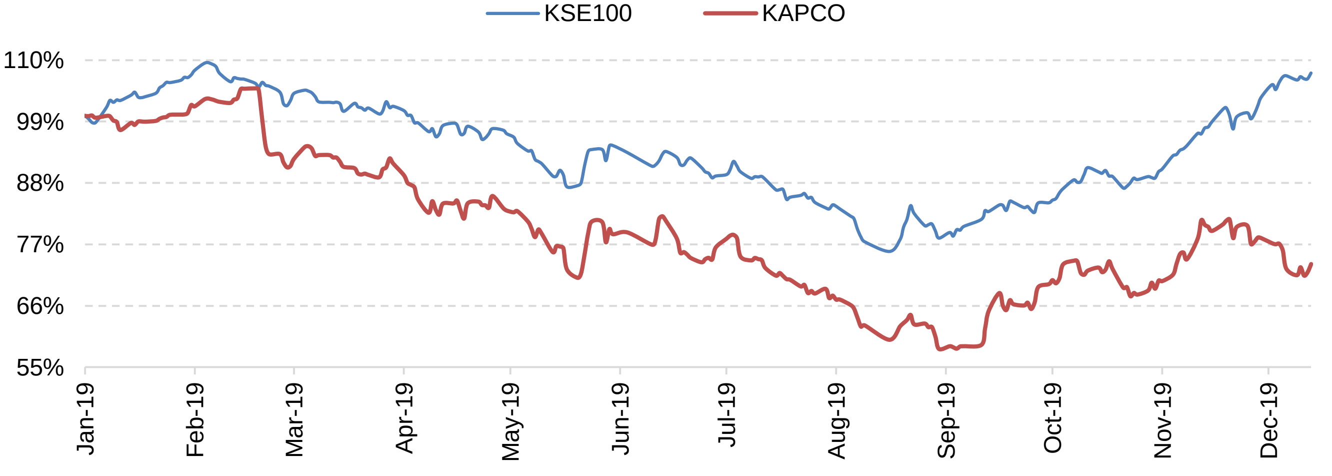
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	98,756	134,527	123,794
Gross Profit	14,205	18,475	18,529
Operating Profit	13,781	12,473	11,201
Finance Cost	8,306	8,083	7,313
Post Tax Profit	13,112	15,459	15,738
Balance Sheet			
Shareholder's Equity	41,161	47,377	53,873
Trade and Other Payables	54,218	86,122	79,253
Total Liabilities	98,106	120,619	104,711
Current Assets	132,512	162,925	155,486
Non-Current Assets	6,755	5,071	3,098
Total Assets	139,267	167,997	158,584

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	14.90	17.56	17.88
Dividend	PKR	4.50	10.50	10.50
Book value	PKR	46.76	53.82	61.20
Price to Earning	x	2.44	1.82	1.79
Dividend Yield	%	12.37	32.82	32.82
Price to Book	x	0.78	0.59	0.52
Net Margins	%	14.38	13.73	14.97

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Oil & Gas Marketing Companies

Good Days Ahead

Oil & Gas Marketing Companies

Good Days Ahead

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
1,494	4.6%	8	38.2%	Over Weight

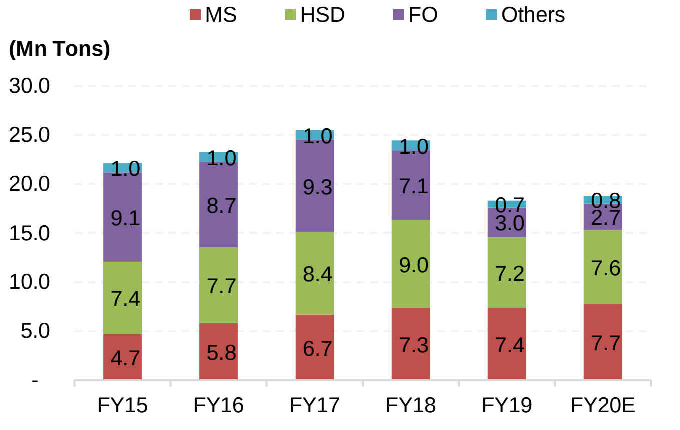
Key Investment Theme

- **HSD and FO Remained Key Culprits for Volumetric Decline:** During last 2 years, Furnace Oil (FO) and High Speed Diesel (HSD) sales witnessed a steep decline due to power generation from FO being replaced with cheaper fuel sources while excess arrival of smuggled diesel from Iran is relatively cheaper than official HSD price. MS sales grew at a three year CAGR of 13% on account of continuous increase in vehicle population.
- **IMO 2020 - Game Changing Fuel Regulation for OMCs**: International Maritime Organization (IMO) is expected to implement its global regulation by 1st Jan'20 to reduce Sulphur content of marine fuel. This development is going to be material positive for OMCs given significant reduction in international HSFO price which should revive sales volume of FO and make it a cheaper source of fuel for power generation compared to RLNG.
- **Multiple Factors to Improve Fuel Demand:** We expect demand momentum to pick up pace from early CY20 amid i) economic stabilization to increase demand of retail fuels, ii) increased surveillance on borders to control smuggling, and iii) implementation of IMO-2020 which will encourage captive power producers to use FO as cheaper fuel.
- **Robust Earnings Forecasted:** Currently the situation is turning favorable for the sector given advent of market determined exchange rate resulting in less volatility in the PKR-USD parity, stable international oil prices and uptick in inflation. This should be beneficial for the sector as margin revision is linked with CPI.
- **High Interest Rates to Erode the Otherwise Robust Profitability:** Recent control of unaccounted for gas (UFG) losses together with an expansion in the distribution network, has translated positively in profitability. Whereas recent hikes in gas prices are also expected to relieve some pressure off of the cash flows of local utilities, as the government targets to minimize the difference in prescribed and consumer prices. Albeit, high interest rates and augmented borrowing amid accumulation of receivables has rendered finance costs to undergo a massive jump, hence compressing the bottom-line slightly.

Key Risks

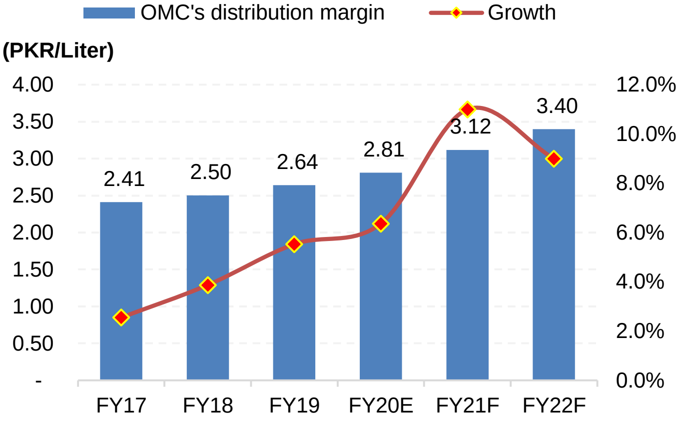
- Devaluation of PKR against USD can lead to exchange losses.
- Decline in ex-refinery prices may result in inventory loss.
- Uncontrolled arrival of smuggled fuel from Iran.
- PKR depreciation against USD alongside higher oil prices trigger an uptick in weighted average cost of gas which exaggerates the quantum of UFG.

Exhibit: Declining FO Share in Overall Volumes



Source (s): OCAC, AHL Research

Exhibit: Rising OMC Margins



Source (s): OGRA, AHL Research

Pakistan State Oil

Reduction in Circular Debt to Boost Profitability

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
PSO	262.70	196.23	33.9%	BUY

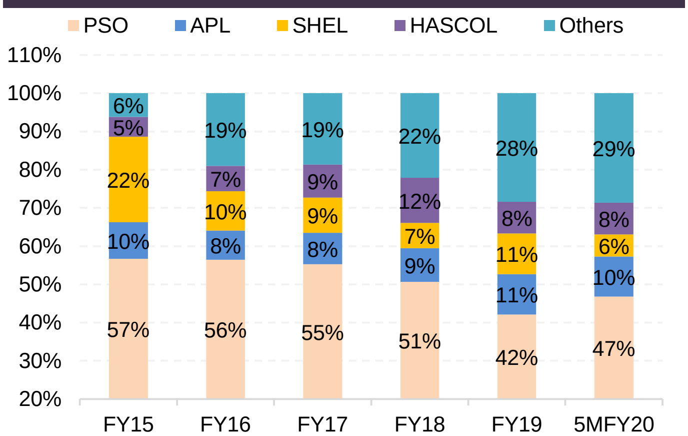
Key Investment Theme

- **Volumes Making Investment Theme More Attractive:** We expect PSO to witness double digit volumetric growth on account of i) HASCOL losing its market share which directly benefits PSO, ii) rise in price of CNG resulting in higher demand of MS, iii) rising supply of vehicles, iv) improving security situation along with strict control on borders disallowing dumped fuel entry in the country, and v) increase in tourism to Pakistan.
- **Planning to Setup Refinery with Saudi Aramco:** The management is planning to invest in a state of the art refinery and petrochemical project in collaboration with Saudi Aramco under government to government arrangement to ensure uninterrupted supply of petroleum products in the country. The total project cost will be around USD 10bn.
- **Government's Effort to Reduce Circular Debt Bodes Well:** The company managed to reduce circular debt from power sector drastically as company received PKR 60bn from SUKUK-I and government is issuing another SUKUK-II of PKR 250bn in which PSO is expected to receive the lion's share.
- **Exchange Gain to Support Profitability:** During FY19, the company recorded an exchange loss of PKR 3,112mn due to depreciation of PKR from 121/USD to 161/USD. We expect the PKR to hover around 157.5/USD (Jun'20 closing), resulting in the company recognizing an exchange gain in FY20.
- **Rising Contribution in Revenue from RLNG Business:** During FY19, RLNG contributed 28% in total sales revenue compared to 20% in FY18. We anticipate contribution to increase due to reduction in petroleum volumes on account of overall shrink in industry volumes.

Key Risks

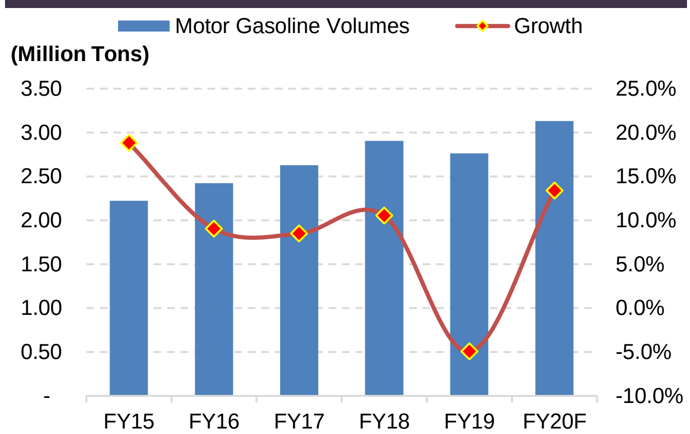
- Further accumulation in circular debt can strain cash flow.
- Retreat in oil prices can cause inventory losses.
- Separation of LNG business which could possibly erode ~8% of total profitability.
- Further monetary tightening.

Exhibit: Rising Market Share of PSO



Source (s): OCAC, AHL Research

Exhibit: Significant Growth Expected in MS Volumes



Source (s): OCAC, AHL Research

Pakistan State Oil

Reduction in Circular Debt to Boost Profitability

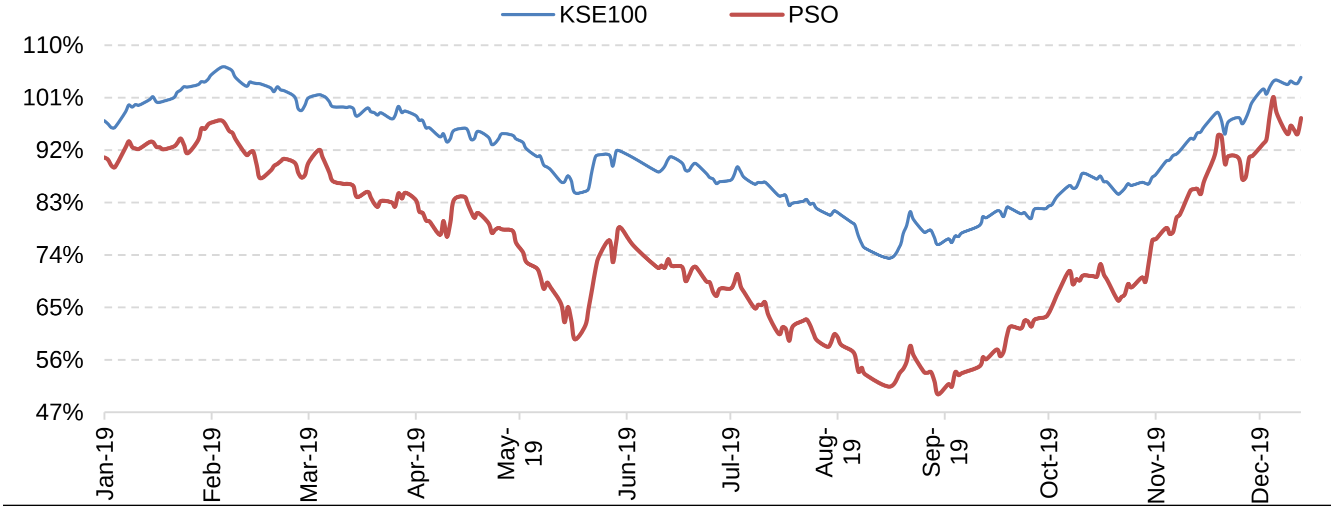
PKR mn	2019A	2020E	2021F
Income Statement			
Sales	1,154,298	1,223,380	1,343,527
Gross Profit	36,017	38,550	43,446
Other Income	7,305	8,394	8,742
Finance Cost	8,939	11,137	10,320
Post Tax Profit	10,587	11,345	13,889
Balance Sheet			
Shareholder's Equity	119,181	126,613	133,460
Interest Bearing Liabilities	107,994	91,974	91,954
Total Liabilities	297,899	262,383	281,116
Current Assets	384,225	355,329	379,677
Non-Current Assets	32,854	33,667	34,899
Total Assets	417,080	388,996	414,576

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	22.5	24.2	29.6
Dividend	PKR	10.0	10.0	15.0
Book value	PKR	253.9	269.7	284.3
Price to Earning	x	7.5	8.1	6.6
Dividend Yield	%	5.9	5.1	7.6
Price to Book	x	0.7	0.7	0.7
Net Margins	%	0.9	0.9	1.0

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Sui Northern Gas Pipelines

Upgrade to RLNG Provides Layered Defense

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
SNGP	111.06	78.98	40.6%	BUY

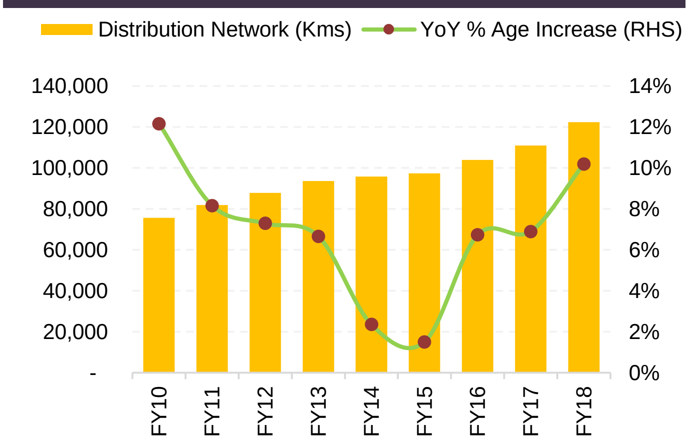
Key Investment Theme

- **Assets' Growth to Fuel Operating Profits:** Given the induction of RLNG into the system, the Regulator continues to sanction augmented funds (capital requirement targeted at PKR 35bn and PKR 20bn in FY19 and FY20, respectively) - primarily to develop the distribution network. Bearing in mind the ROA-based formula SNGP derives its bottom-line from, a massive surge therefore can be expected in operating profits. Albeit, we have phased out the expenditure to PKR 12bn by FY24, despite the company projecting a bigger quantum of CAPEX (PKR 46bn), since historically OGRA has remained relatively conservative.
- **UFG Losses to Remain Contained:** Although UFG losses appear inconsistent in terms of percentage, absolute UFG losses have come down significantly from 71bcf in FY13 to 50bcf in FY18. With domestic gas depleting naturally, and given continuous efforts of the UFG Control Committee, we estimate UFG volumes to continue ticking lower going forward. While we have assumed average UFG to exceed 10% over our investment horizon.
- **Gas Tariff Hikes to Shield cash flows:** Energy sector reforms under the IMF program entail timely notification and adjustment in end-consumer tariffs by the Regulator, therefore easing liquidity concerns. Prior to this, the government delayed increasing the tariff for several years which stressed the cash flows of gas utilities as the deficit filled in by the government swelled to enormous levels.
- **Accumulate at Current Levels:** Our Dec'20 DCF-based target price has been revised to PKR 111.06/share. The stock offers an upside of 44% from last closing, we recommend BUY.

Key Risks

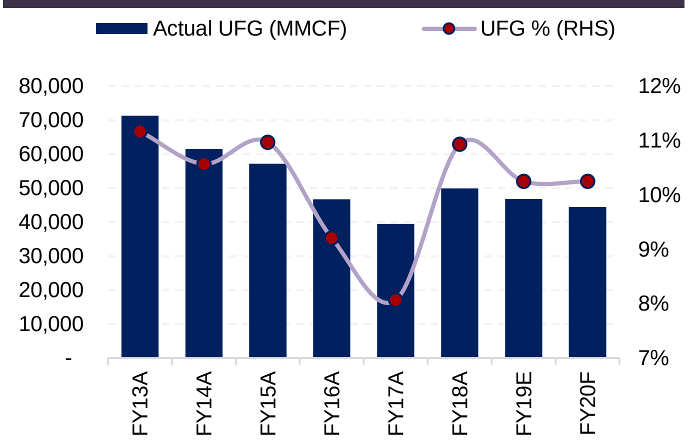
- Failure to ensure utilization of RLNG will cause liquidity issues under the long term take or pay clause.
- Surge in UFG losses; every 1% upturn in our UFG assumption erodes bottom-line by ~PKR 1.5bn.
- Implementation of the UFG reduction plan, a key requirement of the IMF, poses an upside risk.
- Higher oil prices and PKR depreciation push up the quantum of weighted average cost of gas and UFG.

Exhibit: Visible growth in distribution network



Source (s): Company Financials, AHL Research

Exhibit: Profitability & Price Performance



Source (s): Company Financials, AHL Research

Sui Northern Gas Pipelines

Upgrade to RLNG Provides Layered Defense

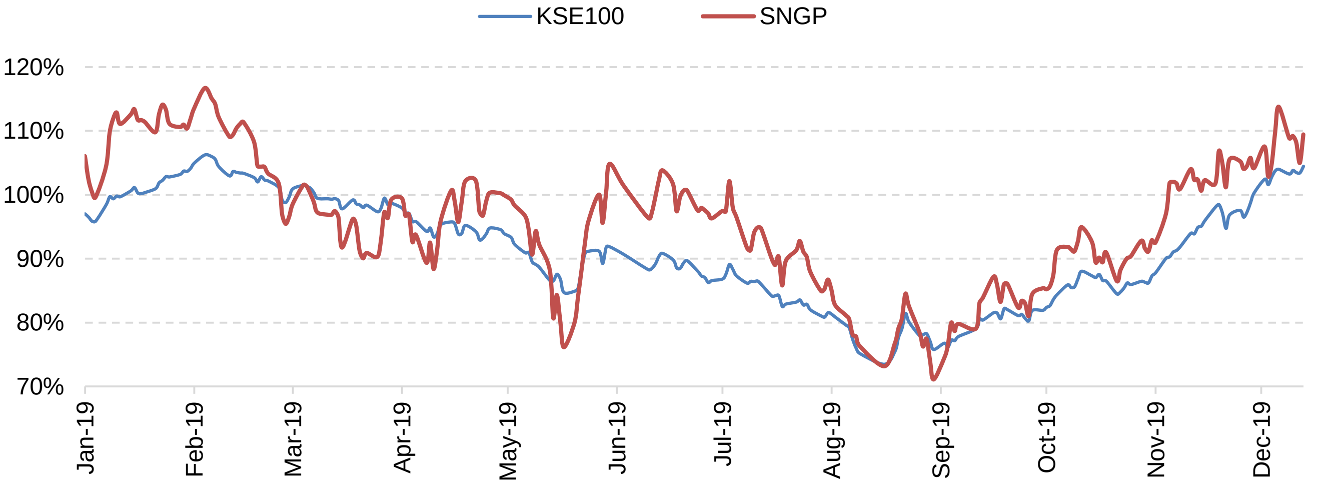
PKR mn	2018A	2019E	2020F
Income Statement			
Sales	503,782	810,848	904,963
Cost of sales	476,786	771,418	878,247
Operating Profit	26,282	39,328	28,502
Financial charges	10,806	25,019	13,890
Post Tax Profit	11,121	10,159	10,375
Balance Sheet			
Shareholder's Equity	18,677	24,365	30,300
Current Liabilities	280,714	386,873	366,353
Trade and other payables	233,680	321,371	325,629
Non-Current Liabilities	161,766	151,666	157,919
Current Assets	267,094	352,459	345,133
Non-Current Assets	194,063	210,446	209,439

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	17.5	16.0	16.4
Dividend	PKR	7.1	7.0	7.0
Book value	PKR	29.4	38.4	47.8
Price to Earning	x	5.7	4.3	4.8
Dividend Yield	%	7.0	10.1	8.9
Price to Book	X	3.4	1.8	1.7
Payout	%	40.2	40.0	40.0

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

ARIF HABIB LIMITED

Automobile Assemblers

Economic Turmoil Clouds Volumetric Growth

Automobile Assemblers

Economic Turmoil Clouds Volumetric Growth

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
1,761	2.7%	12	20.4%	Under Weight

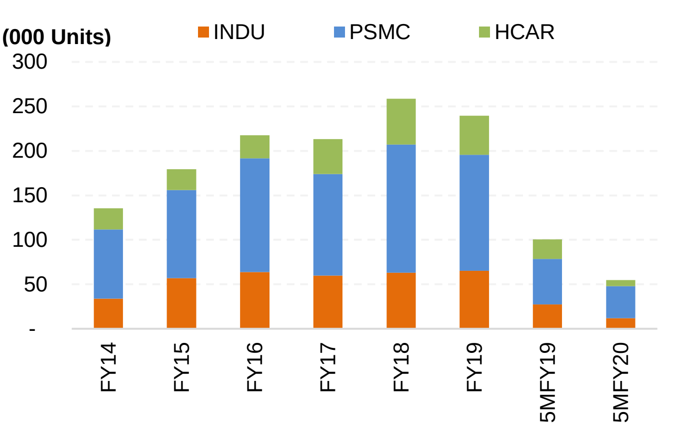
Key Investment Theme

- **Double Digit Decline in Auto Volumes:** In the period under review, auto sales have witnessed a massive slowdown due to i) significant depreciation of PKR against USD, ii) rise in interest rates to 13.25%, iii) slower GDP growth (5.5% in FY18 to 3.3% in FY19), iv) competition from new entrants, v) imposition of Federal Excise Duty (FED) on sale of automobiles, and vi) increase in additional custom duty and regulatory duty on imported raw materials.
- **A Story from Double Shift Working to Non Production Days:** Previously, all three OEMs used to operate plants on a double shift basis to reduce delivery time period as demand of automobiles was at its peak. Currently, two leading automobile assemblers are observing Non Production Days (NPD) and we expect this to continue in the upcoming year as demand of automobiles is expected to remain subdued due to economic slowdown and higher prices of automobiles.
- **Volumetric Outlook:** The upcoming year is going to be the year of new players as they have better pricing power given availability of duty concession for new players [as per Automobile Development Policy (2016-21)] which will allow them to penetrate and grab market share from existing automobile manufacturers. We expect overall volumes to drop by 40% while HCAR, INDU, MTL and PSMC volumes are expected to decrease by 40%, 39%, 25% and 10%, respectively.
- **Electric Vehicle Policy - Talk of the Town:** Minister for Climate Change proposed EV policy to save environment and precious foreign exchange of around USD 2bn per annum. In the proposed policy, import of CBU vehicles will be allowed at zero duty for the next five years while 1% sales tax will be collected from EV assemblers for seven years. We believe implementation on EV policy might depress volumes of existing auto manufacturers.
- **Profitability to Remain Stressed:** Currently sustainability of margins and profitability remains challenging for the sector due to i) depressed Purchasing power of customers given lower GDP growth (2.4% in FY20) and high inflation forecast, ii) government's documentation drive, and iii) higher interest rates.

Key Risks

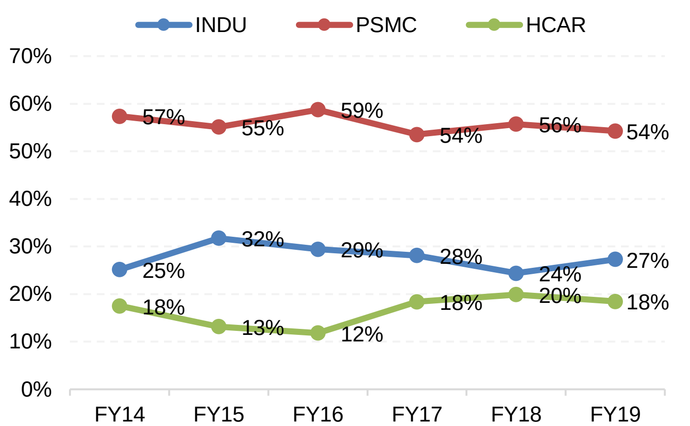
- Economy may face further slowdown in upcoming year.
- Approval and implementation of proposed Electric Vehicle Policy.
- Unexpected movement in exchange rates.
- Delay in introduction of new cars by existing players or new players grabbing market share of existing OEMs.

Exhibit: Automobile Sales Volume



Source (s): PAMA, AHL Research

Exhibit: Market Share



Source (s): PAMA, AHL Research

Pak Suzuki Motors Company Ltd

ARIF HABIB LIMITED

Higher Cost of Financing Upsetting Bottom-line

PSX Code	Target Price (Dec'20)	Market Price	Total Return	Stance
PSMC	143.70	255.36	-43.7%	Sell

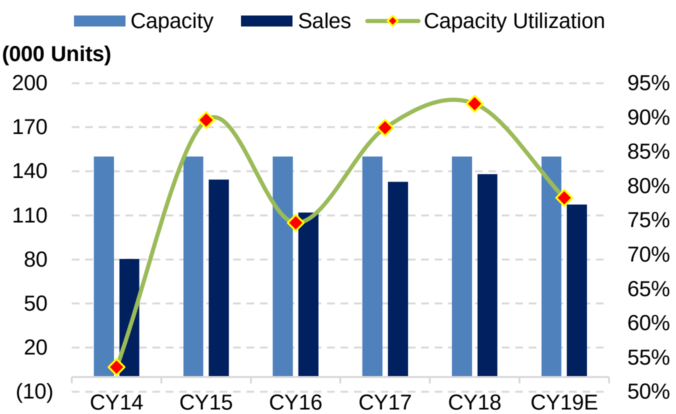
Key Investment Theme

- **Macroeconomic Slowdown to Keep Volumes Subdued:** Historic data shows that auto demand in Pakistan is highly sensitive to economic slowdown. As a result, PSMC witnessed double digit decline in volumes despite launch of most awaited 660cc Suzuki Alto which saved the grace as it contributes almost 50% of Suzuki's production form 2HCY19. Apart from launch of Alto, the company is witnessing worst time period in its history in terms of sales and profitability.
- **Higher Finance Costs to Erode Profitability:** During the period under review, company obtained historic high short term borrowing in high interest rate era which exceeds PKR ~20bn mark to meet working capital requirements. The current mark up rate on borrowing ranges between 12-14%. We expect higher finance costs owing to augmented short term borrowings to keep profitability subdued.
- **New Entrants Grabbing Market Share from Existing Players:** KIA recently launched Picanto in Sep'19 which has given immense competition to Cultus and Wagon R, resulting in drastic volumetric decline of 35% YoY and 75% YoY during 5MFY20. We expect launch of new hatchback models from new entrants which will reduce market share of the company.
- **Trading at Unjustified P/E:** Despite massive surge in vehicle prices, PSMC is set to register a huge loss in CY19 as company was unable to pass on full impact of currency depreciation while rise in duties on imported raw materials resulted in lower gross margins. We expect the company to post a loss per share of PKR 43/share compared to earnings per share of PKR 15 last year. PSMC is trading at an unjustified price compared to peers.

Key Risks

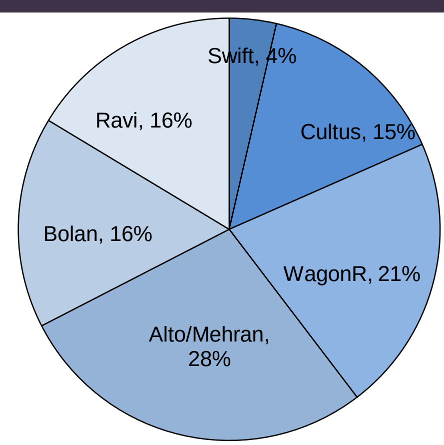
- Further adverse currency movement would result in higher exchange loss and lower gross margins.
- Higher duty concessions to new entrants.
- Adverse change in import duty structure.

Exhibit: Declining Capacity Utilization



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

Exhibit: Car Share in Total Sales



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

Pak Suzuki Motors Company Ltd

Higher Cost of Financing Upsetting Bottom-line

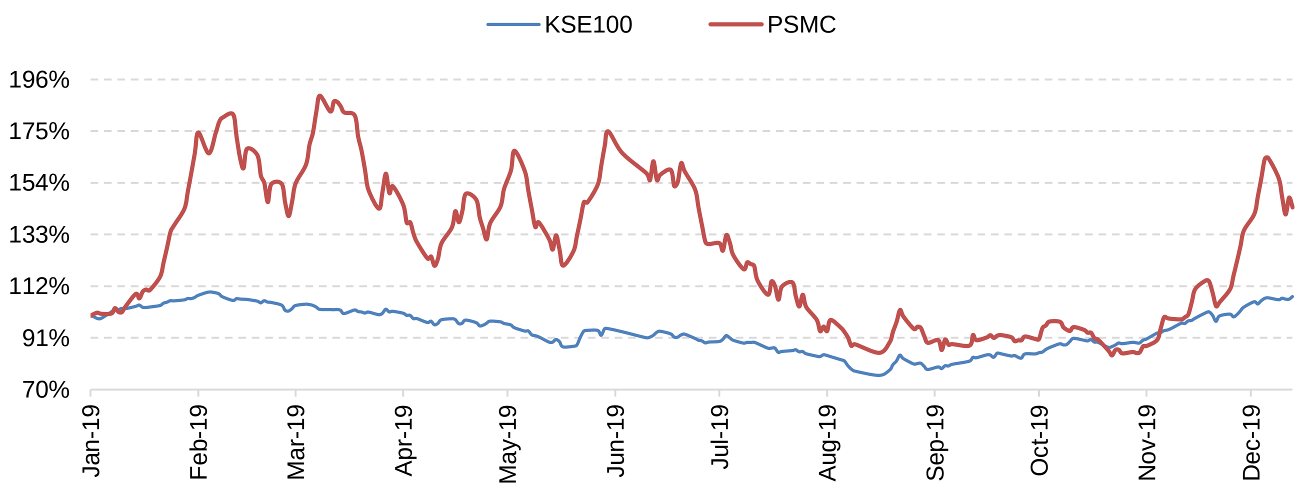
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	119,853	123,011	137,529
Gross Profit	7,044	1,824	7,627
Other Income	565	322	283
Finance Cost	362	1,589	2,182
Post Tax Profit	1,298	(3,502)	162
Balance Sheet			
Shareholder's Equity	29,233	25,731	25,893
Interest Bearing Liabilities	11,310	21,490	20,415
Total Liabilities	32,277	42,756	45,147
Current Assets	43,682	48,351	51,515
Non-Current Assets	17,828	20,136	19,525
Total Assets	61,510	68,487	71,040

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	15.8	(42.6)	2.0
Dividend	PKR	3.2	-	-
Book value	PKR	355.2	312.6	314.6
Price to Earning	x	11.0	nm	129.3
Dividend Yield	%	1.8	-	-
Price to Book	x	0.5	0.8	0.8
Net Margins	%	1.1	(2.8)	0.1

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Textile

Expanding to Increase Global Footprint

Textile

Expanding to Increase Global Footprint

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
1,738	2.5%	50	24.8%	Market Weight

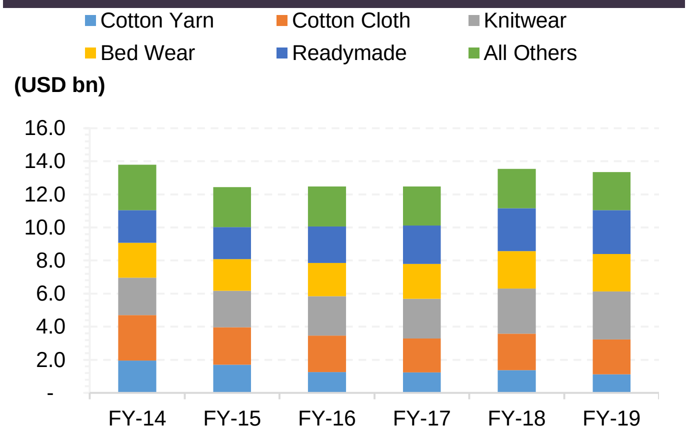
Key Investment Theme

- **Volumetric Growth:** The textile sector of Pakistan has witnessed decent volumetric growth, especially the value added segment, on account of government's support to export oriented sector in terms of subsidized gas and electricity prices, partial clearance of pending refunds, currency depreciation and availability of cheaper financing (LTFF and ERF). This has resulted in double digit growth in volumes of textile exports.
- **Continuation of GSP+ Status and Free Trade Agreement with Other Countries:** Pakistan finally entered into the long awaited Free Trade Agreement (FTA) phase-II with China and it is expected to benefit the textile sector the most (in particular the value added sector), as it can export products at 0% import tariff compared to an import tariff of 5-9% previously.
- **Downward Mobility:** We believe the ongoing financial year will prove to be challenging for the textile sector given higher cotton prices (25% YoY growth in average prices) and low cotton output (declined by 20% YoY) in the country. Furthermore, high interest rates, change in taxation regime (removal of zero rated status) and Pak Rupee appreciation are some of the factors posing threat to sector's profitability.
- **Export-Friendly Approach:** The incumbent government has taken several steps to boost textile exports by providing relief in the form of i) reducing the cost of doing business by slashing custom / regulatory duties on key imported raw materials, ii) concessionary gas prices at USD 6.5/mmbtu compared to actual market price of USD 11/mmbtu, and iii) subsidized electricity prices at USD 7.5/Kwh. On the other hand, these sectors have an advantage to avail borrowing on fixed interest rates from Export Refinance scheme (ERF) at 3% and Long Term Finance Facility (LTFF) at 6.0% which is significantly lower than current discount rate of 13.75%.

Key Risks

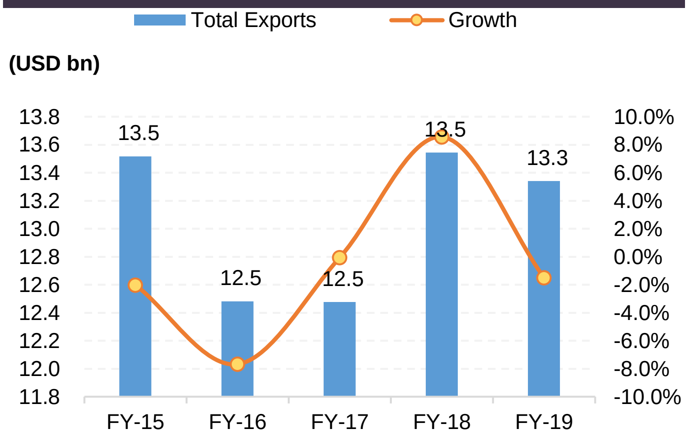
- A key downside risk remains any reversal (appreciation) in the PKR/USD parity, which would negatively affect exports and sales.
- Volatility in Cotton and Polyester prices.
- Delay in refund payments.
- Discontinuation of GSP+ Status.

Exhibit: Contribution in Textile Exports



Source (s): PBS, AHL Research

Exhibit: Total Textile Exports



Source (s): PBS, AHL Research

Interloop Limited

Expansion to Keep Profitability Upbeat

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
ILP	67.70	58.08	16.6%	Buy

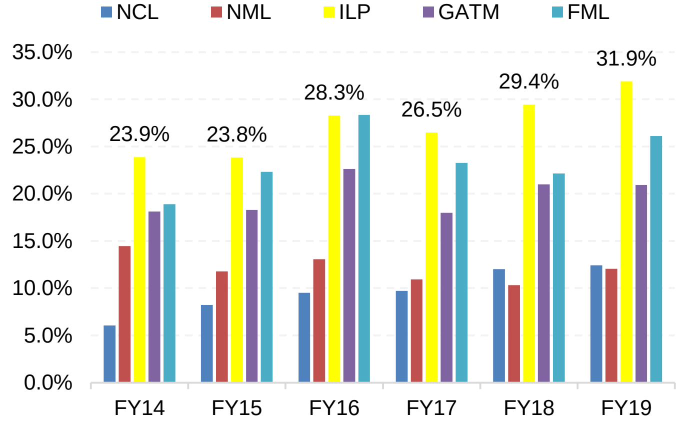
Key Investment Theme

- **Further Expansion in Hosiery Division:** The company proved itself as a hosiery expert by posting substantial growth in earnings. The company raised PKR 5.02bn finance an expansion plan which will increase total machines to 6,300 (post expansion). The prime objective of expansion is to capture rising demand, ensure timely delivery, adhere to quality standards, increase energy efficiency and value addition.
- **Diversification While Capitalizing On the Opportunity:** Pakistan has a competitive edge in denim production due to local cotton which is considered most suitable for manufacturing of denim fabric. To make the most of it, ILP is planning to tap into the denim market, which is one of the most alluring textile segment, by setting up a denim plant in Lahore with a production capacity of 14.6mn (40,000/pcs per day) jeans per annum. We believe the denim segment will contribute around 5.3% of total sales or PKR ~3.0bn in FY20 and 9.2% or PKR ~6bn in FY21.
- **One of the World's Largest Socks Supplier:** The company holds ~9% share in the country's knitwear exports and 3.5%-4.0% in the world's total socks supplies. Pakistan contributes 5% to global spinning capacity hence, it makes ILP the world's largest socks supplier (barring Chinese producers).
- **Double Digit Growth in Profitability:** That said, we expect ILP to continue posting double digit growth going forward since the company has a strong customer base globally, highest gross margins amongst listed textile entities, experienced workforce, concrete liquidity position, state of the art machinery, alongside its upcoming expansion in denim and hosiery division. We expect profitability of the company to grow at 5-yr CAGR of 18.8%.

Key Risks

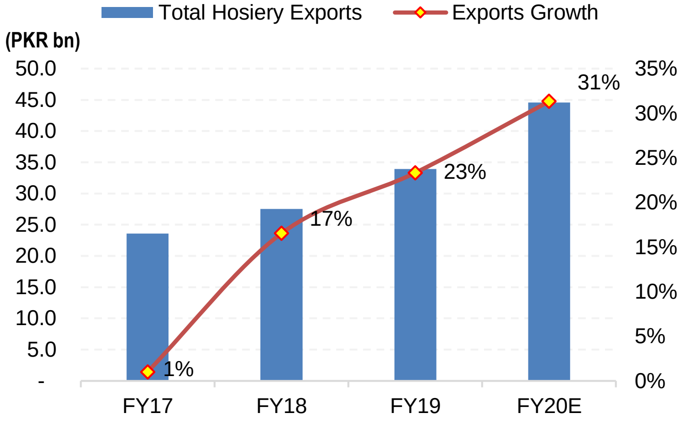
- Escalation in trade war between US and China, which could lead to sales decline.
- Any unfavorable movement in PKR/USD will result in exchange losses.
- Any unfavorable decision of the Financial Action Task Force (FATF) to put Pakistan on the black list would lead to decline in business and clientele, and other financial hardships.

Exhibit: Highest Gross Margins



Source (s): Company Financials, AHL Research

Exhibit: Hosiery Export Growth



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

Interloop Limited

Expansion to Keep Profitability Upbeat

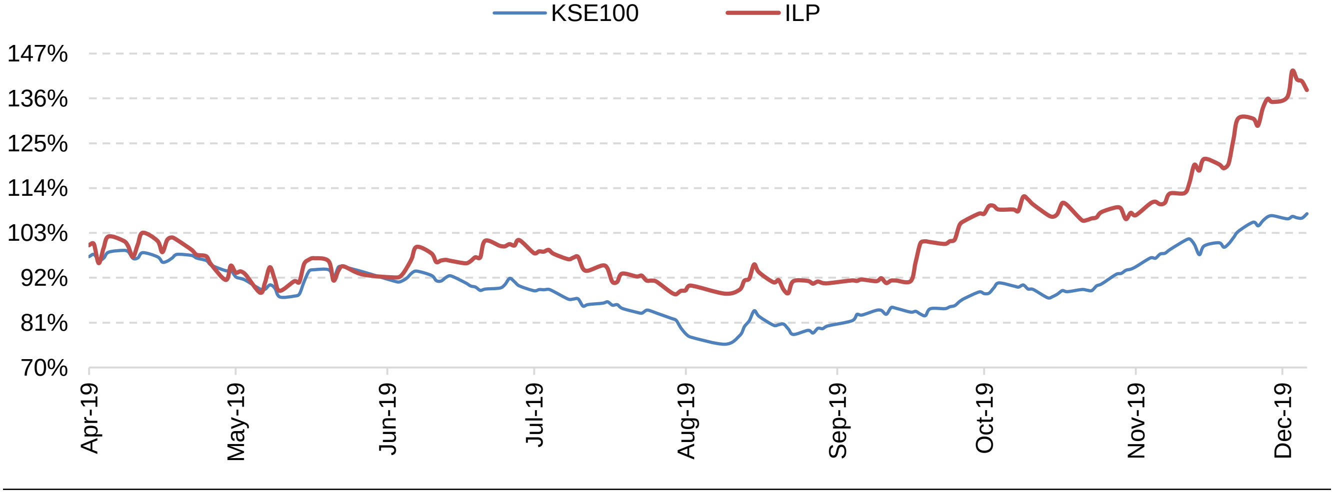
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	37,478	51,052	61,911
Gross Profit	11,955	14,297	17,484
Operating Profit	6,402	6,785	8,795
Finance Cost	996	1,085	1,302
Post Tax Profit	5,195	5,472	7,240
Balance Sheet			
Shareholder's Equity	17,880	20,735	24,486
Interest Bearing Liabilities	16,602	19,658	22,679
Total Liabilities	22,903	26,236	29,535
Current Assets	21,357	24,004	27,941
Non-Current Assets	19,425	22,967	26,080
Total Assets	40,783	46,971	54,021

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	6.0	6.3	8.3
Dividend	PKR	3.0	3.0	4.0
Book value	PKR	20.5	23.8	28.1
Price to Earning	x	7.4	9.3	7.0
Price to Book	x	2.2	2.4	2.1
Gross Margins	%	31.9	28.0	28.2
Net Margins	%	13.9	10.7	11.7

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Feroze1888 Mills Limited

Weaving for Better Future

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
FML	133.90	96.00	39.5%	Buy

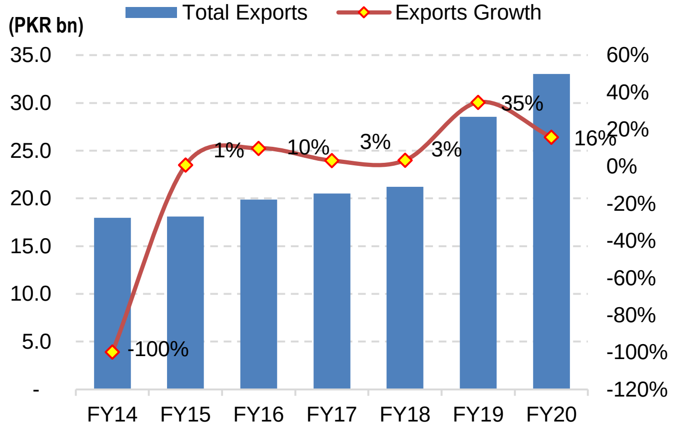
Key Investment Theme

- **Towering ~27% Market Share Of The Country's Towels Exports:** Total sales accounts for ~99% of exports given company has a portfolio of well-known international brands and strong reach in global markets. The company maintained its share from the past few years while we expect this may increase to 30% till FY20 and onwards.
- **Efficient Cash Conversion Keeps Working Capital Solid:** Cash conversion (Inventory days + Receivable days – Payable Days) is a key contributor towards the success of the company as it boosts profitability of the company and it also measures how efficiently a company extracts cash flow from its operations. FML's cash conversion cycle is one of the lowest amongst listed entities.
- **Massive Global Footprints:** FML is a well-established player in the towel market with a growing market share, as sales witnessed 5-yr CAGR of 10%. Total export accounts for ~99% of total sales given company has a portfolio of well-known international brands and strong reach in global markets amid superior quality products, given the company has partnered with 1,888 mills (holding 5.3% of shares on FML) in the US. We believe towel volumes are likely to grow at a 5-yr CAGR of 4% where the growth is to be accelerated through capacity addition, and rising overseas customer base.
- **Expansion to Capture Rising Demand:** The company is continuously incurring capital expenditure to increase production efficiency and to meet rising demand. During FY19, company made capex of PKR 3.6bn on investment in balancing, modernization and rehabilitation (BMR) of existing machinery with state of the art new equipment. We expect company to incur capex of PKR 4bn in FY20 to add 24 looms along with targeting replacement of older looms with newer looms.

Key Risks

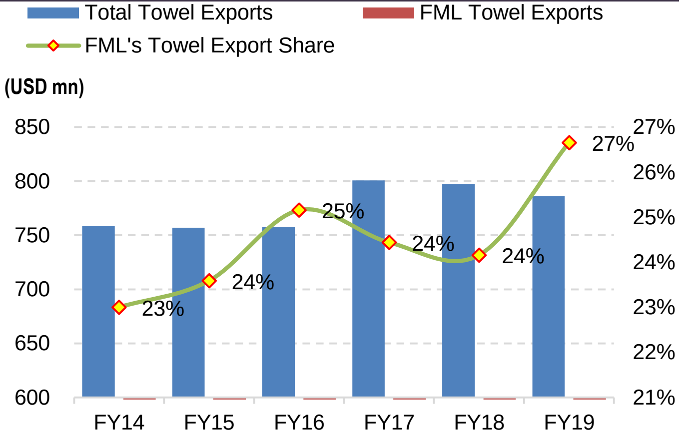
- Discontinuation of GSP+ status.
- Any increase in duties on Pakistan by USA.
- Adverse currency movement.
- Volatility in Cotton and Polyester prices.

Exhibit: FML's Export Growth



Source (s): Company Financials, AHL Research

Exhibit: FML's Share in Total Towel Exports



Source (s): Company Financials, AHL Research

Feroze1888 Mills Limited

Weaving for Better Future

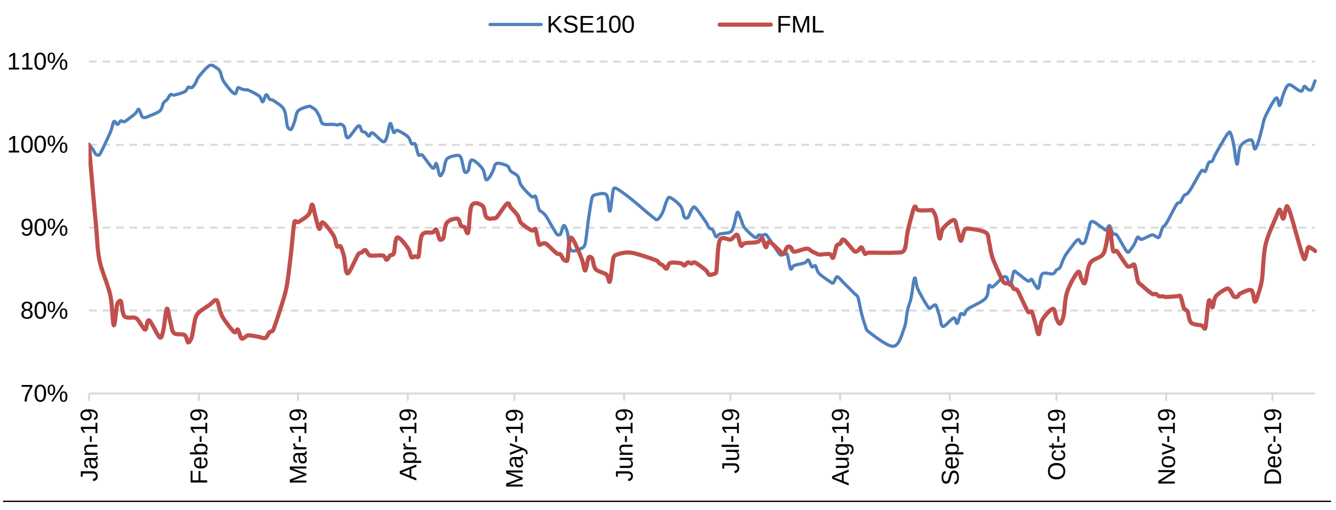
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	29,244	33,853	35,556
Gross Profit	7,638	9,190	10,061
Operating Profit	6,377	5,004	6,149
Finance Cost	156	265	241
Post Tax Profit	5,990	4,380	5,543
Balance Sheet			
Shareholder's Equity	20,103	22,344	25,881
Interest Bearing Liabilities	8,900	9,228	8,119
Total Liabilities	13,864	14,807	13,849
Current Assets	20,304	21,801	23,140
Non-Current Assets	13,663	15,351	16,591
Total Assets	33,967	37,151	39,730

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	15.90	11.63	14.71
Dividend	PKR	6.35	4.65	6.00
Book value	PKR	53.4	59.3	68.7
Price to Earning	x	6.3	8.3	6.5
Price to Book	x	1.9	1.6	1.4
Gross Margins	%	26.1	27.1	28.3
Net Margins	%	20.5	12.9	15.6

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Chemicals

Substituting Imports, Generating Profits

Chemicals

Substituting Imports, Generating Profits

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
2,107	2.3%	28	19.6%	Market Weight

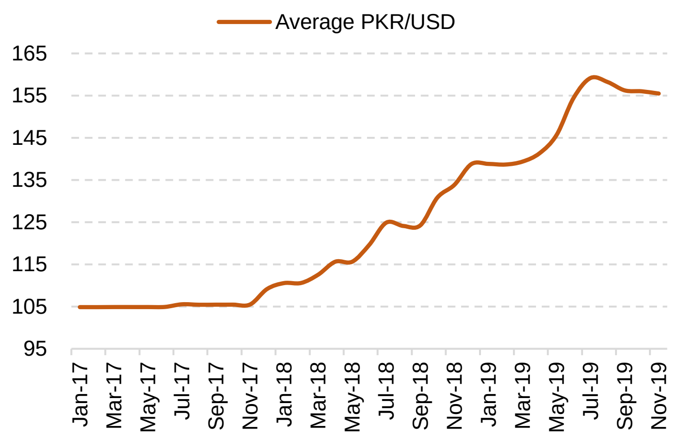
Key Investment Theme

- **PKR Depreciation to Benefit the Chemical Companies:** The margins of PTA (Purified Terephthalic Acid) and PVC (Polyvinyl chloride) are dollar-based. To recall, currency depreciation over the past year has improved the chemical companies' profitability and we believe it would continue to do so in the future.
- **Sole Producers of their Respective Products:** EPCL and LOTCHEM under the AHL chemical universe, are sole producers of PVC and PTA with an installed capacity of 195K tons and 500K tons per annum, respectively. The local demand for both products (270K tons and 700K tons, respectively), is higher than local production, thereby ensuring sales.
- **Growing Demand:** In a country like Pakistan, with a total population of over 200mn, the demand for PVC and PTA is expected to continue growing. The growth in demand of PVC is driven by higher usage of PVC in various industries. The local demand of PTA is around 700K tons. However, it touched 800K tons during 2018. We believe the local demand of PTA will grow to 1mn tons as the economy is expected to enter a growth phase in the next 2-3 years.
- **Import Substitution:** As mentioned earlier, EPCL and LOTCHEM are the only producers of PVC and PTA in the country and fulfill majority of the country's demand (EPCL: ~75%, LOTCHEM ~71%). In the current macroeconomic situation, where the government is undertaking steps to curb unnecessary imports, local players remain shielded from risk of imports.

Key Risks

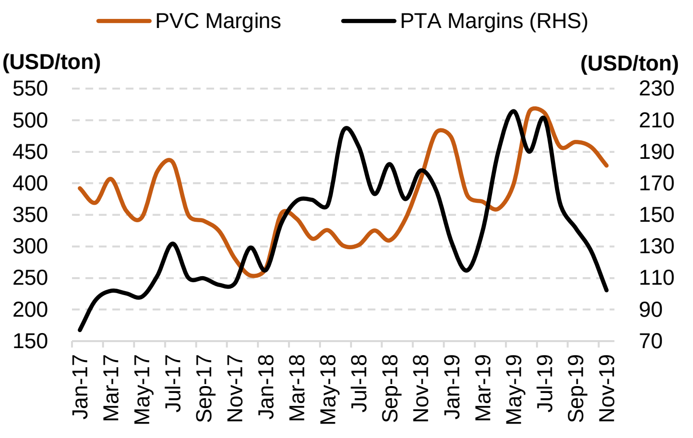
- Higher than expected increase in gas prices.
- Change in import duty structure.
- Lower than expected PKR depreciation.
- Lower than expected international PTA and PVC margins.

Exhibit: Historical Currency Performance



Source (s): SBP, AHL Research

Exhibit: Volatile PVC and PTA Margins



Source (s): Bloomberg, AHL Research

Engro Polymer & Chemicals Ltd.

ARIF HABIB LIMITED

Heading Towards Diversification

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
EPCL	48.80	36.73	32.9%	BUY

Key Investment Theme

- **Demand Pushed PVC Expansion and Import Substitution:** The local demand of PVC has grown to ~270K tons from ~170K tons in Jun'15. To cater the growing demand, EPCL has announced a capacity addition of 100K tons/annum of PVC. EPCL is the only producer of PVC in the country and fulfills ~75% of the country's total demand. With the government focusing on keeping imports contained, we believe that EPCL is well poised to benefit from duty protection.
- **Heading Towards Diversification:** EPCL has also announced to enter in the Hydrogen Peroxide (H_2O_2) and Linear Alkyl Benzene Sulphonic Acid (LABSA) market with a total production capacity of 20K tons and 24K tons per annum, respectively. The local demand for H_2O_2 and LABSA is ~72K tons/annum and ~110K tons/annum, respectively. EPCL has a competitive advantage over existing players of H_2O_2 as it already produces Hydrogen gas. As far as LABSA is concerned, EPCL already has a customer base for the product as it is expected to sell it to the same customers as that of Caustic Soda.
- **Earnings to Grow at a CAGR of 11.1% (2018-2022):** The company posted earnings of PKR 4,917mn (EPS: PKR 5.41) during CY18 which are expected to grow to PKR 7,499nm (EPS: PKR 8.25) by CY22. The rise in earnings is backed by i) expansion in PVC and caustic flaker, and ii) new additions of Hydrogen Peroxide (H_2O_2) and LABSA.
- **Higher than Expected PVC Margins:** The international PVC margins are hovering around USD 479/ton compared with an average of USD 336/ton during CY18. The rise in margins was witnessed due to environmental restriction on manufacturing of carbide based PVC in China. We expect the average international PVC margins to hover at USD 330/ton in long term.

Key Risks

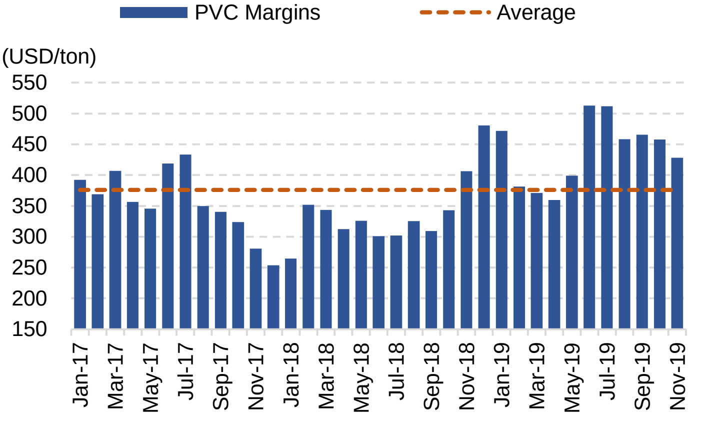
- Lower than expected international PVC margins.
- Higher than expected increase in gas prices.
- Decline in import duty of PVC (Current: 13.25%, (includes 2.25% additional custom duty).
- Lower than expected PKR depreciation.
- Unfavorable outcome of GIDC decision.

Exhibit: PVC Margins Sensitivity

	PVC Margins* (USD/ton)	EPS (PKR) CY20F	EPS (PKR) CY21F	TP (Dec-20)
Case 1	225	1.61	2.51	19.65
Case 2	250	2.23	3.43	26.52
Case 3	275	2.85	4.35	33.39
Case 4	300	3.49	5.30	40.42
Base Case	**330**	**4.25**	**6.42**	**48.80**
Case 6	350	4.74	7.17	54.32
Case 7	375	5.38	8.11	61.36
Case 8	400	6.01	9.06	68.39
Case 9	425	6.65	10.00	75.42
Case 10	450	7.28	10.95	82.46

Source (s): Company Financials, AHL Research, * International

Exhibit: Historical international PVC Margins



Source (s): Bloomberg, AHL Research

Engro Polymer & Chemicals Ltd.

Heading Towards Diversification

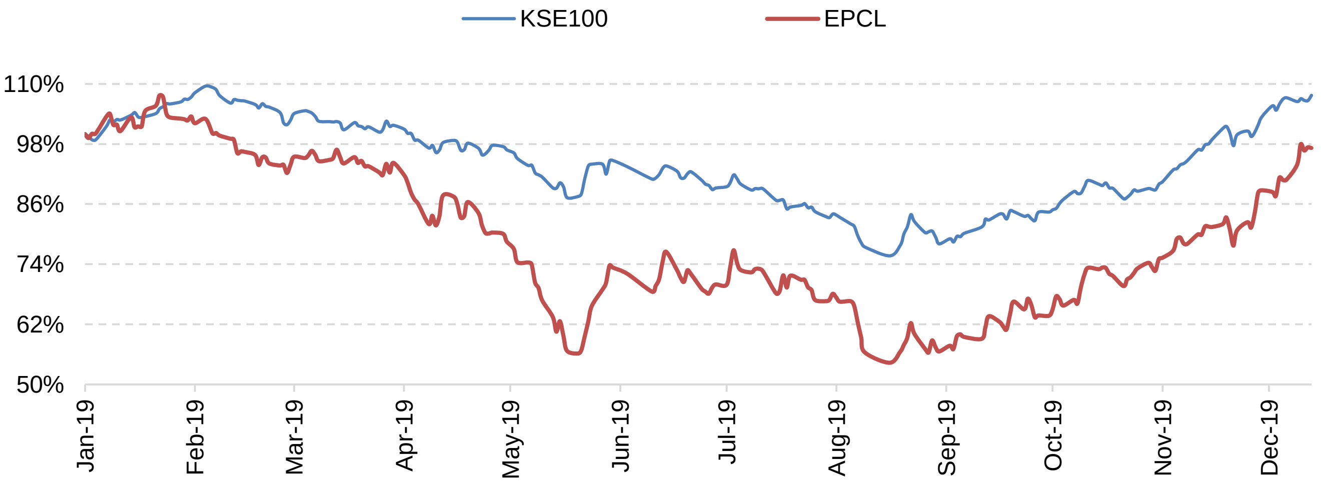
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	35,272	36,561	35,300
Gross Profit	26,536	28,018	27,287
Operating Profit	8,736	8,543	8,013
Finance Cost	606	1,590	1,527
Post Tax Profit	4,917	3,960	3,859
Balance Sheet			
Shareholder's Equity	16,744	20,158	23,108
Current Liabilities	11,337	13,270	14,831
Trade and other Payables	6,435	6,010	5,803
Non-Current Assets	7,890	13,961	17,482
Current Assets	16,331	15,285	20,023
Total Assets	19,639	32,105	35,397

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	5.4	4.4	4.2
Dividend	PKR	1.1	0.6	1.0
Book value	PKR	18.4	22.2	25.4
Price to Earning	x	6.9	8.4	8.7
Dividend Yield	%	3.0	1.6	2.7
Price to Book	x	2.0	1.7	1.4
Gross Margins	%	24.8	23.4	22.7

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Lotte Chemical Pakistan Ltd.

Resolution of Trade War to Improve Margins

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
LOTCHEM	22.96	14.64	56.8%	BUY

Key Investment Theme

- **Growing Local demand of PTA and Import Substitution:** Local demand of PTA has reached 800k tons per annum in 2018 on the back of higher (89%) operating rates of downstream polymer industry. However, due to economic slowdown and lower operating rates of downstream polymer industry local demand of PTA has come down to 700K tons during 2019. We project the demand for PTA demand to grow to 1mn ton in next two to three years. Being the only producer of PTA in the country, LOTCHEM fulfills ~71% of the country's total demand. Therefore, the company is expected to continue receiving duty protection going forward.
- **Unleveraged Balance Sheet:** LOTCHEM has an unleveraged balance sheet and has cash of PKR 13.0bn (as of Sep'19). As a result, the company has a shield against higher interest rates. Moreover, the liquidity will help to easily finance the future expected expansion. The company also holds 75 acres of free land for future expected expansion. However, based on current local demand, expansion is not feasible as minimum expansion size is 800K tons due to change in technology.
- **Long-term PTA Margin Assumption at USD 130/ton:** The current decline in margins (USD 86/ton) is triggered by lower operating rates of downstream industry in China is backed by prolonged trade war between US and China. However, the margins have crossed USD 200/ton during 2019. We expect operating rates of downstream polyester industry to improve and average margins to settle at USD 130/ton going forward. Higher expected polyester demand will keep the PTA prices stable.

Key Risks

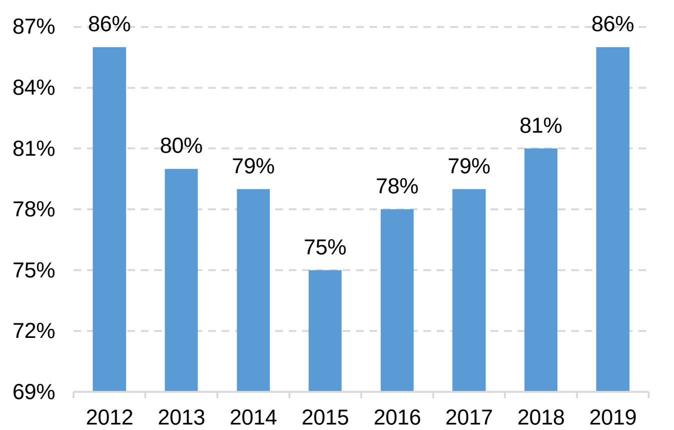
- Lower than expected international PTA margins.
- Higher than expected increase in gas prices.
- Decline in import duty of PTA (Current: 5%).
- Lower than expected PKR depreciation.
- Unfavorable outcome of GIDC decision

Exhibit: PTA Margins Sensitivity

	PTA Margins (USD/ton)*	EPS (PKR) CY20F	CY21F	TP (Dec-20)
Case 1	90	1.12	0.78	10.97
Case 2	100	1.48	1.11	13.57
Case 3	110	1.86	1.50	16.42
Case 4	120	2.21	1.90	19.69
Base Case	**130**	**2.57**	**2.31**	**22.96**
Case 6	140	2.95	2.73	26.45
Case 7	150	3.30	3.14	29.57
Case 8	160	3.68	3.56	32.56
Case 9	170	4.04	3.86	35.17
Case 10	180	4.39	4.26	38.44

Source (s): Company Financials, AHL Research, *International

Exhibit: Polymer Rates to Dictate the PTA Prices



Source (s): PCI, LOTCHEM Analyst Briefing Presentation, AHL Research

Lotte Chemical Pakistan Ltd.

Resolution of Trade War to Improve Margins

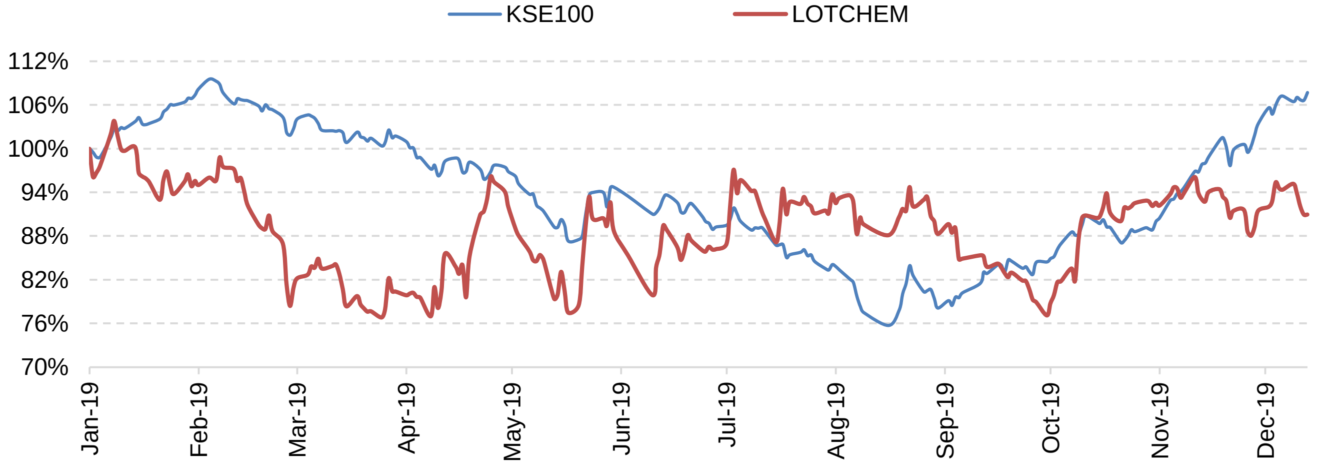
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	57,400	60,470	54,020
Cost of Sales	50,019	52,709	48,985
Gross Profit	7,382	7,761	5,035
Other Income	515	1,208	1,420
Post Tax Profit	4,431	5,389	3,889
Balance Sheet			
Shareholder's Equity	12,519	15,637	18,012
Current Liabilities	8,629	7,501	6,723
Trade and other payables	6,683	7,290	6,512
Non-Current Liabilities	125	125	125
Current Assets	15,570	17,639	19,314
Non-Current Assets	5,704	5,624	5,547

Source (s): Company Financials, AHL Research

Ratio Analysis		2018A	2019E	2020F
Earnings	PKR	2.9	3.6	2.6
Dividend	PKR	1.5	1.5	1.0
Book value	PKR	8.3	10.3	11.9
Price to Earning	X	6.4	4.1	5.7
Dividend Yield	%	8.0	10.2	6.8
Price to Book	X	2.3	1.4	1.2
Net Margins	%	12.9	12.8	9.3

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Engineering

Excess Capacity Weighing In on Margins

Engineering

Excess Capacity Weighing in on Margins

Mkt Cap (USD mn)	KSE-100 Index Weight	No. of Companies	Free Float (%)	Sector Stance
528	0.8%	18	33.7%	Under Weight

Key Investment Theme

- **Demand Contraction to Linger On:** Economic slowdown led the contraction in the domestic steel sector during FY19 (LSM data suggests that production of long products shriveled by 25% while flat steel production declined by 3%; imports of steel also took a hit of 13% YoY, as per PBS). This trend has spilled over in the ongoing year (production of long steel has undergone a massive drop of 30% YoY in 4MFY20) and it appears that long steel demand in the full year will remain suppressed. Whereas revival in flat steel production appears achievable; it has slipped by a minor 1% YoY in 4MFY20 with imports contracting by 41% as local players undertook capacity additions while illegal smuggling, under invoicing and dumping has been contained.
- **Shut Down of Gadani to Aid the Formal Steel Sector:** The informal ship-breaking at Gadani with a capacity of 800k tons p.a., until recently catered to the low quality long steel demand (~15% of total). Albeit, with its shut down, the demand has been split almost equally in the North and South formal market. With that, we foresee that while overall domestic long steel demand may observe a decline, listed players may benefit from the diversion of low quality steel to high-graded steel rebars.
- **Expansionary Cycle Nears Conclusion; New Players Re-evaluate Entry:** GDP growth of prior years and unprecedented demand ensuing from the public and private sectors set in motion an era of expansion in the local steel space. Whilst most existing manufacturers have undergone expansion, we await entry of new players in the long steel space albeit, no significant additions may materialize in the current scenario marked by high interest rates and slowing demand. Meanwhile, flat steel market remains shielded from such competition amid risk of over capacity and capital intensive nature of the business.
- **Pricing Power Appears Exhausted:** As demand wanes off and new capacities remain under utilized, local players will scuffle to maintain market share. Hence, resistance may be observed in increasing prices.

Key Risks

- Steel margins are sensitive to international volatility in prices of imported scrap and other raw materials.
- Materialization of the Naya Pakistan Housing Scheme with estimated potential demand for 250k single story houses at 1.25mn tons, and dams (Dasu, Karot & Suki Kinari can generate demand of 30k tons per month).

Exhibit: Steel Production, Imports and Consumptions (Tons)

Period	Production					Imports			Consumption (Products)
	Coke	Pig Iron	Long Products	Flat Products	Total	Scrap	Products	Total	
FY12	192,876	249,135	1,616,403	1,850,997	3,909,411	1,638,980	1,804,586	3,443,566	5,271,986
FY13	203,359	201,489	1,638,501	2,371,708	4,415,057	1,782,866	2,160,471	3,943,337	6,170,680
FY14	31,924	89,433	2,128,300	2,641,245	4,809,902	2,000,735	1,976,321	3,977,056	6,745,866
FY15	275,777	265,478	2,730,992	3,154,376	6,426,623	3,028,057	2,458,108	5,486,165	8,343,476
FY16	57,394	1,509	3,183,258	3,185,200	6,427,361	4,007,102	3,126,714	7,133,816	9,495,172
FY17	-	-	4,099,000	3,626,400	7,725,400	4,248,446	3,305,929	7,554,375	11,031,329
FY18	-	-	5,186,000	4,255,550	9,441,550	5,246,745	3,732,520	8,979,265	13,174,070
FY19	-	-	3,864,036	4,384,000	8,248,036	4,554,650	3,240,791	7,795,441	11,488,827
4MFY20*	-	-	1,114,000	1,448,320	2,562,320	1,352,054	724,299	2,076,353	3,286,619

Source (s): PBS, AHL Research, *Provisional

Amreli Steels Limited

Valuations More Than Priced-in in the Scrip

PSX Code	Target Price (Dec'20)	Market Price	Upside Potential	Stance
ASTL	32.08	38.13	-15.9%	SELL

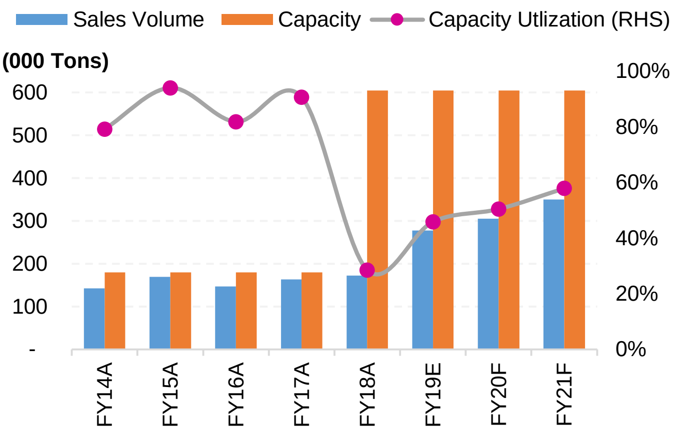
Key Investment Theme

- **Normal Tax Regime Effectively Reduces Prices post FY20 Budget:** Under the FY20 Budget, special tax procedure for domestic re-rollers was replaced with the normal tax regime whereby, a 17% FED on end product prices was imposed. Consequentially, the company has been booking revenue at effectively lower prices despite higher quotation in the retail market (rebar prices increased from PKR 98k in 4QFY19 to PKR 110K per ton at present however, revenue post FED has been recognized at PKR 94k per ton). This has contained the otherwise robust revenue growth expectations of ASTL.
- **Prices to Remain Contained as ASTL Plays The Hardball in North:** With plans to penetrate the market in North, where prices are ~PKR 4-6,000/ton lower compared to South, ASTL aims to aggressively take up its market share from 2% to 4-5% (since North forms 80% of the steel rebar market). Albeit, this will keep a cap on prices as competition is expected to turn fierce.
- **Tail End of Deceleration Period to Rescue Volumes But Margins To Stay Restrained:** With Gadani going out of business, revival of some housing schemes tagged with increasing focus on construction of dams as the economy ameliorates from a period of slowdown, we forecast ASTL to achieve a 3-yr volumetric CAGR of 13% by FY22 to 400,000 tons. Albeit, limited pricing power accompanied with augmented costs associated with the new plant will keep margins at an average of 12% in the next 5 years compared to 17% between FY15-FY19.
- **Sentiments Overplayed:** Although ASTL has shown a stunning rally at the index, we believe the sentiments have been overplayed as the company trades at a FY20 P/E multiple of 66x. At current levels, we have a SELL stance on the scrip with our Dec'19 target price set at PKR 32.08/share.

Key Risks

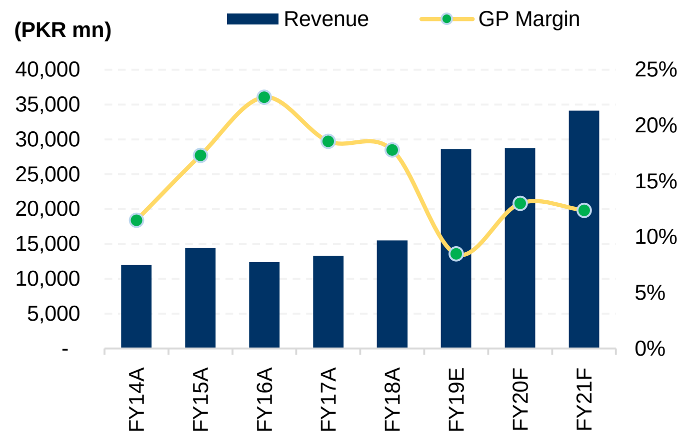
- Entry of new players may squeeze market share and build pressure on margins.
- Volatility in international scrap and other raw material prices.
- Smuggling from Iran, which adds pressure on prices, as manufacturers there benefit from provision of subsidized gas.

Exhibit: Lower Utilization Compared to Previous Years



Source (s): Company Financials, AHL Research

Exhibit: Margins to Average Near 12% Going Forward



Source (s): Company Financials, AHL Research

Amreli Steels Limited

Valuations More Than Priced-in in the Scrip

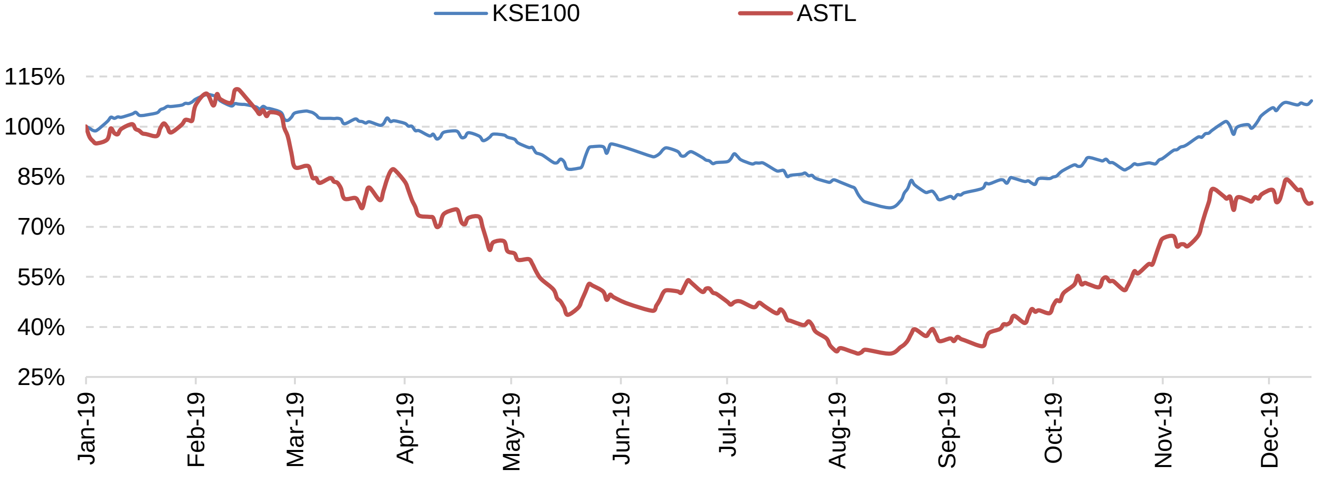
PKR mn	2019A	2020E	2021F
Income Statement			
Net Sales	28,596	28,749	34,115
Cost of Sales	26,172	25,008	29,888
Gross Profit	2,424	3,741	4,227
Finance Cost	1,262	2,054	1,777
Post Tax Profit	33	173	568
Balance Sheet			
Shareholder's Equity	12,244	12,416	12,984
Interest Bearing Liabilities	11,781	12,313	11,533
Current Liabilities	14,475	14,423	14,709
Total Liabilities	17,367	17,173	16,488
Current Assets	12,460	13,163	13,551
Non-Current Assets	17,151	16,427	15,921

Source (s): Company Financials, AHL Research

Ratio Analysis		2019A	2020E	2021F
Earnings	PKR	0.1	0.6	1.9
Dividend	PKR	-	-	0.5
Book value	PKR	41.2	41.8	43.7
Price to Earning	X	223.1	65.6	19.9
Dividend Yield	%	-	-	1.3
Price to Book	X	0.6	0.9	0.9
Net Margins	%	0.1	0.6	1.7

Source (s): Company Financials, AHL Research

Exhibit: Relative Performance with KSE-100 Index



Source (s): Bloomberg, PSX , AHL Research

Recommendation Summary

Code	Price 13-Dec-19	TP (Dec'20)	Upside (%)	Stance	EPS (PKR) 2018	EPS (PKR) 2019	EPS (PKR) 2020	DPS (PKR) 2018	DPS (PKR) 2019	DPS (PKR) 2020	P/E (x)^ 2019	P/E (x)^ 2020	DY (%)^ 2019	DY (%)^ 2020	P/B (x)^ 2019	P/B (x)^ 2020	ROE (%)^ 2019	ROE (%)^ 2020
Exploration & Production																		
PPL	130.6	171.9	31.6	Buy	16.8	22.7	24.7	5.50	2.00	3.00	5.8	5.3	1.5	2.3	1.2	1.0	22.9	20.3
OGDC	135.2	194.8	44.1	Buy	18.3	27.5	29.9	10.00	11.00	12.00	4.9	4.5	8.1	8.9	0.9	0.8	20.1	19.4
POL	440.7	489.0	11.0	Buy	40.1	59.4	56.0	42.50	50.00	50.00	7.4	7.9	11.3	11.3	3.3	3.3	47.6	41.6
MARI	1,328.4	1,501.8	13.1	Buy	115.2	182.4	230.5	6.00	6.00	6.25	7.3	5.8	0.5	0.5	2.8	1.9	46.9	39.1
Commercial Banks																		
UBL	169.1	209.4	23.9	Buy	12.6	16.4	27.5	11.00	11.00	18.00	10.3	6.1	6.5	10.6	1.1	1.1	11.5	18.0
BAFL	46.9	57.9	23.6	Buy	6.2	7.6	8.7	2.50	3.50	4.50	6.2	5.4	7.5	9.6	1.0	0.9	16.6	17.4
MCB	212.7	263.7	23.9	Buy	17.2	18.6	29.8	16.00	16.00	21.00	11.4	7.1	7.5	9.9	1.6	1.5	14.4	21.9
HBL	156.0	197.9	26.8	Buy	8.2	10.3	26.8	4.25	5.00	13.00	15.1	5.8	3.2	8.3	1.1	1.0	7.3	17.5
ABL	100.0	120.7	20.7	Buy	11.4	12.1	13.8	8.00	8.00	8.00	8.2	7.2	8.0	8.0	1.0	1.0	12.7	13.9
NBP	44.6	54.2	21.4	Buy	9.4	11.6	(5.0)	-	-	-	3.8	(8.9)	-	-	0.4	0.4	11.2	(4.7)
AKBL	19.0	22.3	17.5	Buy	3.5	4.7	5.0	1.00	1.00	1.00	4.1	3.8	5.3	5.3	0.6	0.6	16.4	15.5
BOP	11.9	15.8	32.5	Buy	2.9	3.3	3.8	0.75	-	-	3.6	3.2	-	-	0.7	0.6	20.7	19.3
Fertilizer																		
ENGRO	326.7	403.3	23.5	Buy	22.1	33.8	38.6	21.00	25.00	29.00	9.7	8.5	7.7	8.9	1.0	0.9	10.4	11.4
FFBL	22.3	24.4	9.2	Hold	1.5	0.0	1.8	1.00	-	1.00	630.4	12.6	-	4.5	1.5	1.4	0.2	11.6
EFERT	74.5	84.8	13.9	Buy	13.0	11.3	11.4	11.00	12.00	11.50	6.6	6.5	16.1	15.4	2.2	2.2	33.4	34.2
FFC	105.3	130.0	23.5	Buy	11.3	12.4	13.7	8.85	11.00	12.00	8.5	7.7	10.4	11.4	3.8	3.6	46.1	48.0
FATIMA	27.0	NC	na	na	6.3	na	na	1.75	na	na	na	na	na	na	na	na	na	na
AHCL	32.8	NC	na	na	4.0	0.4	na	2.00	-	na	na	na	na	na	na	na	na	na
Cement																		
LUCK	424.5	552.7	30.2	Buy	37.7	32.4	20.5	13.00	6.50	5.00	13.1	20.7	1.5	1.2	1.5	1.4	11.6	6.9
FCCL	16.9	17.2	2.1	Hold	2.5	2.0	0.9	2.00	1.50	-	8.2	18.8	8.9	-	1.1	1.1	13.6	5.8
ACPL	100.5	142.6	41.9	Buy	32.0	15.1	12.5	13.00	4.00	4.00	6.4	8.3	7.9	6.5	1.6	1.5	13.4	10.3
DGKC	75.5	66.8	(11.6)	Sell	20.2	3.7	(7.3)	4.25	1.00	-	20.6	(10.4)	1.3	-	0.5	0.5	2.2	(4.6)
KOHC	74.4	106.6	43.2	Buy	14.8	12.3	3.8	5.00	2.50	1.00	5.3	6.0	11.5	6.6	1.2	1.1	13.1	3.8
MLCF	23.2	22.5	(2.9)	Hold	7.7	4.1	(4.8)	2.50	0.50	-	5.3	6.0	11.5	6.6	1.2	1.1	8.9	(9.5)
POWER	7.0	NC	na	na	0.3	0.5	na	-	-	na	na	na	na	na	na	na	na	na
Oil & Gas Marketing																		
PSO	196.2	262.7	33.9	Buy	32.9	22.5	24.2	15.00	10.00	10.00	8.7	8.1	5.1	5.1	0.8	0.7	9.2	9.2
APL	380.4	433.0	13.8	Buy	56.8	39.8	44.1	40.00	20.00	25.00	9.6	8.6	5.3	6.6	2.0	1.8	21.2	22.1
SNGP	79.0	111.1	40.6	Buy	17.5	16.0	16.4	7.05	7.00	7.00	4.9	4.8	8.9	8.9	2.1	1.7	49.7	49.7
Automobile Assembler																		
PSMC	255.4	143.7	(43.7)	Sell	15.8	(42.6)	2.0	3.16	-	-	nm	129.3	-	-	0.8	0.8	(12.7)	0.6
INDU	1,198.3	1,066.7	(11.0)	Sell	200.7	174.5	96.1	140.00	115.00	55.00	6.9	12.5	9.6	4.6	2.4	2.2	35.7	18.1
HCAR	221.0	157.3	(28.8)	Sell	45.5	27.0	16.8	26.93	12.15	8.00	8.2	13.1	5.5	3.6	1.8	1.7	22.2	13.2
MTL	676.1	756.5	11.9	Buy	107.1	73.0	58.1	120.00	85.00	50.00	9.3	11.6	12.6	7.4	7.0	6.1	69.4	55.9
Power Generation & Distribution^^																		
HUBC	90.9								Coverage Restricted due to Advisory Mandate									
NCPL	19.5	32.1	74.8	Buy	9.3	9.3	12.6	1.50	2.00	2.00	2.1	1.6	10.3	10.3	0.5	0.4	25.7	28.3
NPL	30.0	37.5	33.1	Buy	9.1	10.6	12.3	1.50	1.50	2.50	2.8	2.5	5.0	8.3	0.6	0.5	21.2	20.8
KAPCO	32.0	46.8	79.1	Buy	12.1	14.9	17.6	9.15	4.50	10.50	2.1	1.8	14.1	32.8	0.7	0.6	34.4	34.9
Textile Composite																		
NML	108.4	134.8	24.4	Buy	11.7	16.7	11.6	4.75	4.00	5.00	6.5	9.3	3.7	4.6	0.6	0.6	8.2	6.1
NCL	40.4	47.5	17.6	Buy	9.8	13.2	6.7	4.00	4.00	3.00	3.1	6.0	9.9	7.4	0.6	0.6	21.8	10.2
FML	96.0	133.9	39.5	Buy	7.3	15.9	11.6	3.65	6.35	4.65	6.0	8.3	6.6	4.8	1.8	1.6	33.0	20.6
ILP	58.1	67.7	16.6	Buy	4.5	6.0	6.3	5.00	3.00	3.00	9.8	9.3	5.2	5.2	2.8	2.4	38.5	28.3
Chemicals																		
LOTCHEM	14.6	23.0	56.8	Buy	2.9	3.6	2.6	1.50	1.50	1.00	4.1	5.7	10.2	6.8	1.4	1.2	38.3	23.1
EPCL	36.7	48.8	32.9	Buy	5.4	4.4	4.2	1.10	0.60	1.00	8.4	8.7	1.6	2.7	1.7	1.4	21.5	17.8
Engineering																		
ASTL	38.1	32.1	(15.9)	Sell	5.3	0.1	0.6	2.20	-	-	345.0	65.6	-	-	0.9	0.9	0.3	1.4

Source: Bloomberg, AHL Research, * Group Company: No estimates are given, **Earning Consolidated Basis, ^ Calculated at a Price of 13-Dec-19, ^^Upside is total return

List of Abbreviation

1H	First Half	KSE	Karachi Stock Exchange
1Q	First Quarter	LESCO	Lahore Electric Supply Company
9M	9 Months	LHS	Left hand side
ADB	Asian Development Bank	LNG	Liquified Natural Gas
AIDP	Auto Industry Development Policy	LPS	Loss Per Share
ADR	Advances Deposit Ratio	LSM	Large Scale Manufacturing
AHL	Arif Habib Limited	LTFF	Long Term Financing Facility
AML	Anti-Money Laundering	mn	Million
APCMA	All Pakistan Cement Manufacturers Association	mb/d	Million barrels per day
ATA	Annual Turned Around	ME	March End
avg	Average	MEPCO	Multan Electric Power Company
bn	Billion	mmbtu	Metric Million British Thermal Unit
bbl	Barrel	mmcfd	Million Cubic Feet Per Day
bcf	Billion Cubic Feet	MPC	Monetary Policy Committee
BoE	Barrels of Oil Equivalent	MPS	Monetary Policy Statement
BoP	Balance of Payment	MS	Motor Spirit
bpd	barrels per day	MSCI	Morgan Stanley Composite Index
bps	Basis Points	MTM	Mark to Market
CAB	Current Account Balance	MW	Mega Watts
CAD	Current Account Deficit	NCCPL	National Clearing Company of Pakistan Limited
CAGR	Compounded Annual Growth Rate	NEPRA	National Electric Power Regulatory Authority
CAR	Capital Adequacy Ratio	NFA	Net Domestic Assets
CASA	Current Account Saving Account	NFC	National Finance Commission
CEO	Chief Executive Officer	NHA	National Highway Authority
CFT	Combating the Financing of Terrorism	NII	Net Interest Income
CKD	Complete Knock Down	NIM	Net Interest Margins
CM	Chief Minister	NIR	Net International Reserve
CNG	Compressed Natural Gas	NPL	Non Performaning Loans
CNIC	Computerized National Identity Card	NSS	National Saving Scheme
COD	Commercial Operations Date	NTDC	National Transmission & Despatch Company
CPEC	China Pakistan Economic Corridor	NY	New York
CPI	Consumer Price Index	NYSDFS	New York State Department of Financial Services
CPP	Capacity Purchase Price	OEM	Original Equipment Manufacturer
CPPA	Central Power Purchase Agency	O&M	Operations & Maintance
CYTD	Calendar year to date	OMCs	Oil Marketing Companies
CY	Calendar Year	OPEC	Oil Producing and Exporting Countries
DAP	Di-ammonium Phosphate	OPEX	Operating Expense
DISCOS	Distribution Companies	p.a.	Per annum
DCF	Discounted Cash Flow	PARCO	Pak Arab Refinery Ltd
DPS	Dividend Per Share	PAT	Profit After Tax
DR	Discount rate	PBS	Pakistan Bureau of Statistic
DY	Dividend Yield	PBV	Price to Book Value
E&P	Exploration & Production	PE	Price Earning
EBITDA	Earning Before Interest, Taxes & Amortization	PER	Price Earning Ratio
ECC	Economic Coordination Committee	PESCO	Peshawar Electric Supply Company
EFF	Extended Fund Facility	PIAC	Pakistan International Airline Corporation
EIA	Energy Information Administration	PIB	Pakistan Investment Bonds
EM	Emerging Markets	PKR	Pakistan Rupee
EPCC	Engineering, procurement, construction & commissioning	PM	Prime Ministers
EPP	Energy Purchase Price	POL	Petroleum Products Prices
EPS	Earrings Per Share	PP	Petroleum Policy
EU	European Union	PPA	Power Purchase Agreement
EV	Enterprise Value	PPIS	Pakistan Petroleum Information Service
Ex	Excluding	PR	Policy Rate
FATF	Financial Action Task Force	PSDP	Public Sector Development Program
FBR	Federal Board of Revenue	PSM	Pakistan Steel Mills
FIPI	Foreign Investor Portfolio Investment	PSX	Pakistan Stock Exchange
FM	Frontier Markets	PTI	Pakistan Tehreek-e-Insaf
FMCGs	Fast Moving Consumer Goods	QESCO	Quetta Electric Supply Company
FO	Furnace Oil	QR	Quick Response
FRDLA	Fiscal Responsibility and Debt Limitation Act	RDs	Regulatory Duties
FTSE	Financial Times Stock Exchange	REER	Real Effective Exchange Rate
FX	Foreign Exchange Reserves	RFO	Residue Fuel Oil
FYTD	Fiscal year to date	RGDP	Real Gross Domestic Product
FY	Fiscal Year	RHS	Right hand side
GBP	Great Britain Pound	RIR	Real Interest Rate
GDPg	GDP growth	RLNG	Regassified Liquified Natural Gas
GDP	Gross Domestic Product	ROA	Return on Assets
GENCOs	Power Generation Companies	ROE	Return on Equity
GEPCO	Gujranwala Electric Power Company	RRR	Reserve Replacement Ratio
GIDC	Gas Infrastructure Development Cess	SBP	State Bank of Pakistan
GHPL	Government Holdings (Pvt) Ltd.	SECMC	Sindh Engro Coal Mining Company
Gov't	Government	SME	Small Medium Enterprises
GSP	Generalised Scheme of Preferences	SOE	State-Owned Enterprises
GST	General Sales Tax	SoTP	Sum of the parts
HESCO	Hyderabad Electric Supply Company	SPLY	Same period last year
HSD	High Speed Diesel	TD	To Date
IDR	Investment Deposit Ratio	T&D	Transmission & Distribution
IFC	International Finance Corporation	TPA	Tonnes Per Annum
IMF	International Monetary Fund	UFG	Unaccounted for Gas
IPPs	Independent Power Producers	US	United States
JIT	Joint Investigation Team	USD	US Dollar
JPY	Japanese Yen	WAPDA	Water & Power Development Authority
KO	Kerosene Oil	YTD	Year-to-date
KSA	Kingdom of Saudi Arabi	YoY	Year-on-Year

Disclaimer

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings
Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'20 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 +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% 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 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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In order to avoid any conflict of interest, we hereby disclose that; Arif Habib Limited (AHL) has shareholding in AKBL, NBP, NCL, BOP.

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