REP-300

KSE-100 Index Profitability

Striking Growth Continues

Profitability up by 36% YoY in 4QCY20

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AHL Research

D: +92 21 32462742

UAN: +92 21 111 245 111, Ext: 322

F: +92 21 32420742

E: ahl-research@arifhabibltd.com

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KSE-100 Index Profitability

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4QCY20: Earnings up by 36% YoY

- Corporate profitability across the domestic bourse continued to post impressive numbers with earnings posting a sharp 36% YoY ascent during 4QCY20. Earnings of the KSE-100 index also posted a healthy jump of 8% YoY during CY20. Albeit, a sequential decline of 2.8% was witnessed during the outgoing quarter (primarily attributable to a decline in banks' profits). We do highlight that despite lagged impact of 2Q (when a strict lockdown was observed to contain the spread of COVID-19) in 3QCY20 where earnings had shot up drastically, bottom-line of the KSE-100 index did not dip considerably in the last quarter, indicating a strong recovery in economic fundamentals.
- During 2QFY21 / 4QCY20, major contributors to the jump in profitability growth include: Cement, Fertilizer, Power Generation, and Automobile Assemblers posting PKR 11.6bn (+547.6% YoY), PKR 25.7bn (+100.5% YoY), PKR 19.3bn (+56.5% YoY), and PKR 6.5bn (+191.8% YoY), respectively while Commercial Banks and E&P earnings witnessed a contraction of 2.3% YoY and 12.4% YoY to settle at PKR 47.9bn and PKR 41.1bn, respectively. On a sequential basis, KSE-100 index earnings posted a 2.8% decline QoQ, led by Banks (-30.4%), Oil & Gas Exploration & Production (-18.4%) and OMC's (-25.6%).
- Despite COVID, highest ever profits were recorded in CY20 at PKR 672bn (+8% YoY), primarily owed to stellar earnings posted by heavy weight sectors including Commercial banks (+33.3%), Fertilizers (+46.9%), Power Generation (+9.4%), and Cement (+49.4%).
- On the other hand, index profitability was dented by Oil and Gas Exploration & Production which posted a 12.9% YoY decline while bottom-line of Chemicals, Textile Composite and Automobile Assemblers were down by 3.5%, 39.4% and 6.7% YoY, respectively. Refineries and OMC's posted losses of PKR 4.4bn and PKR 6.6bn respectively.
- Sectors leading the profitability chart during CY20 were Technology & Communication (+174.2% YoY), Investment Banks (+131.7% YoY), Engineering (+129.9% YoY), and Pharmaceuticals (+74.3% YoY). During 4QCY20, Engineering (+1872.1% YoY), Cement (+547.6% YoY), Glass & Ceramics (+428.4% YoY) and Woolen (+282.8% YoY) led the earnings jump of the index.
- During CY20, the KSE-100 generated a return of 7.4% (3,020 points). Cement sector posted the highest contribution during CY20 (1,919 points) followed by Technology (1,384 points), Textile Composite (500 points), Automobile Assemblers (401 points) and Pharmaceuticals (393 points). However, Banking sector eroded 1,071 points from the index followed by E&P (-1,044 points), Power (-303 points), Tobacco (-277 points) and OMC's (-145 points).
- On a sequential basis, during 4QCY20, the KSE-100 posted a 3,184 points jump with the return arriving at 7.85% (USD-based return of 11.81%). Technology sector posted the highest contribution during 4QCY20 (844 points) amid re-rating, followed by Cement (407 points) in lieu of sharp recovery in demand, Banks (390 points) amid attractive valuations, Textile Composite (298 points) given robust export orders, and Fertilizers (269 points).
- We have based our analysis on the KSE-100 index companies. We have included the result of 85 companies while the remaining 15 companies have not disclosed their results yet. The companies which have been included in our analysis represent almost 94.7% of the market capitalization of the benchmark bourse.

KSE-100 Index Profitability

4QCY20: Earnings up by 36% YoY

Exhibit: Sector Wise KSE-100 Index Profitability

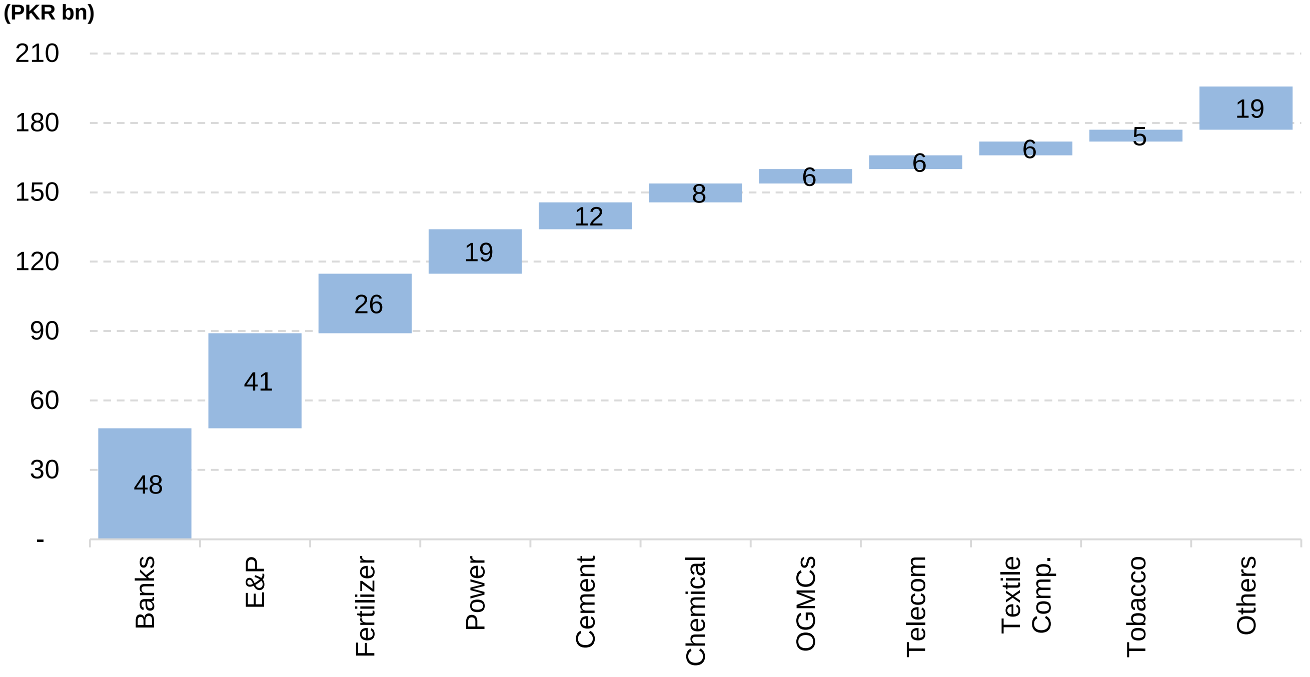
(PKR mn)	Weight	4QCY20	4QCY19	YoY	QoQ	2HCY20	YoY	CY20	YoY
KSE100 Index		**204,489**	**150,676**	**36%**	**-2.8%**	**414,958**	**36%**	**671,626**	**8%**
Commercial Banks	21.2%	47,942	49,085	-2%	-30%	116,851	24%	230,816	33%
Fertilizer	13.8%	25,744	12,838	101%	-8%	53,587	98%	73,828	47%
Cement	11.7%	11,574	1,787	548%	92%	17,600	34.8x	14,902	49%
Oil & Gas Exploration	11.2%	41,123	46,945	-12%	-18%	91,513	-9%	187,558	-13%
Power Generation	5.9%	19,255	12,306	56%	25%	34,711	36%	54,836	9%
Technology & Comm.	5.5%	5,948	(11)	nm	106%	8,829	1284%	9,949	174%
Oil & Gas Marketing	4.3%	6,279	2,654	137%	-26%	14,720	85%	(6,626)	-145%
Pharmaceuticals	3.9%	2,702	1,518	78%	36%	4,694	77%	8,868	74%
Textile Composite	3.7%	5,873	4,634	27%	2%	11,629	45%	12,784	-39%
Automobile Assembler	3.2%	6,499	2,227	192%	40%	11,139	124%	15,437	-7%
Chemicals	2.9%	8,160	4,005	104%	45%	13,777	44%	17,803	-3%
Food & Personal Care	1.9%	2,839	1,966	44%	-8%	5,927	94%	10,989	33%
Insurance	1.6%	2,201	2,780	-21%	82%	3,408	-23%	7,131	7%
Miscellaneous	1.4%	319	396	-19%	-193%	(26)	nm	(1,972)	nm
Engineering	1.3%	5,075	257	1872%	1331%	5,429	1417%	4,974	130%
Tobacco	1.2%	5,152	2,904	77%	38%	8,878	52%	16,492	28%
Automobile Parts	0.9%	1,156	747	55%	32%	2,030	116%	2,851	-10%
Refinery	0.8%	282	(1,907)	nm	-359%	173	nm	(4,415)	nm
Transport	0.5%	807	386	109%	75%	1,269	47%	1,548	nm
Investment Banks	0.4%	137	89	54%	-10%	290	140%	363	132%
Glass & Ceramics	0.3%	1,313	248	428%	155%	1,828	121%	2,452	9%
Real Estate Investment	0.3%	2,865	3,224	-11%	417%	3,419	-15%	7,517	15%
Leasing Companies	0.1%	250	272	-8%	6%	486	-3%	685	-33%
Sugar	0.1%	(627)	139	nm	-181%	149	nm	633	-39%
Textile Spinning	0.1%	655	453	44%	241%	847	3%	74	-95%
Modarabas	0.1%	84	87	-4%	4%	165	-5%	307	-11%
Synthetic & Rayon	0.1%	788	541	46%	21%	1,438	24%	1,726	-31%
Vanaspati & Allied	0.0%	(17)	47	nm	-146%	20	-73%	32	-69%
Woollen	0.0%	74	19	283%	230%	97	nm	(7)	nm
Textile Weaving	0.0%	37	39	-6%	-15%	81	27%	90	-55%

Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

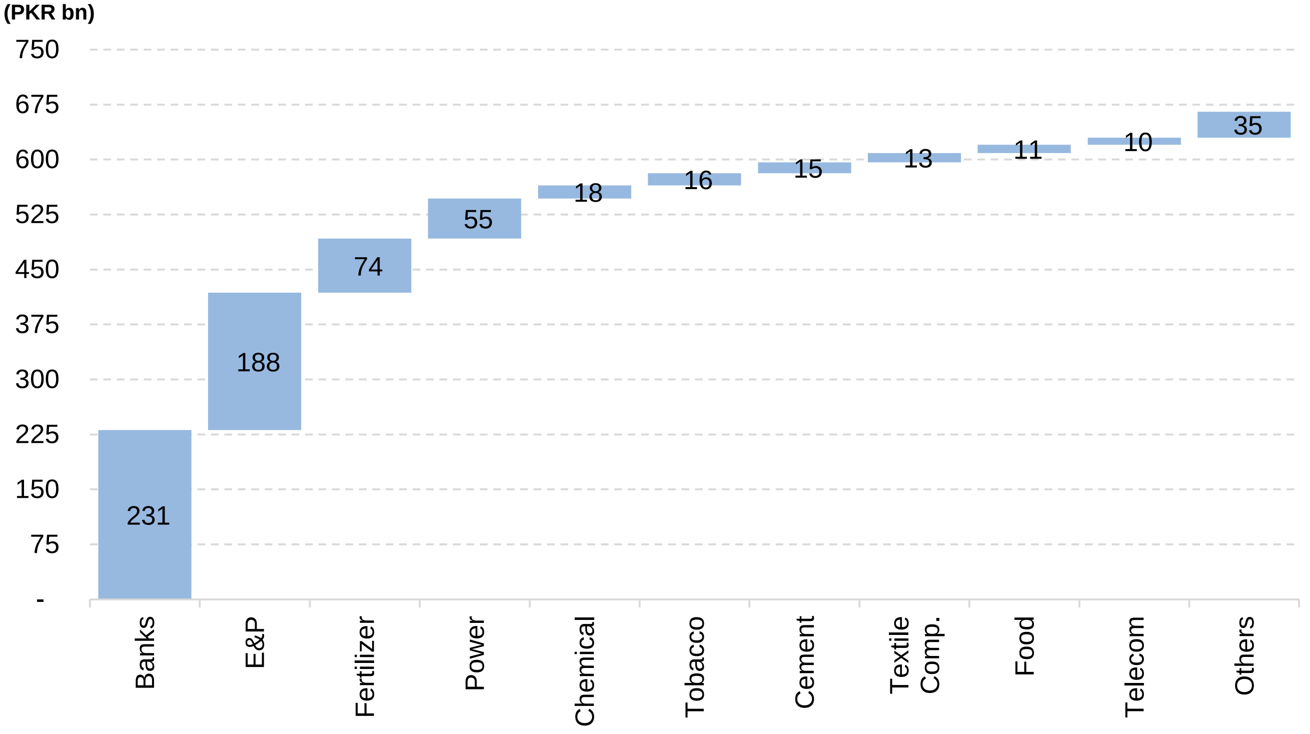
KSE-100 Index Profitability Contributions (Graphs)

Exhibit: Sector Wise Profitability Contribution (4QCY20)



Source (s): Company Financials, AHL Research

Exhibit: Sector Wise Profitability Contribution (CY20)

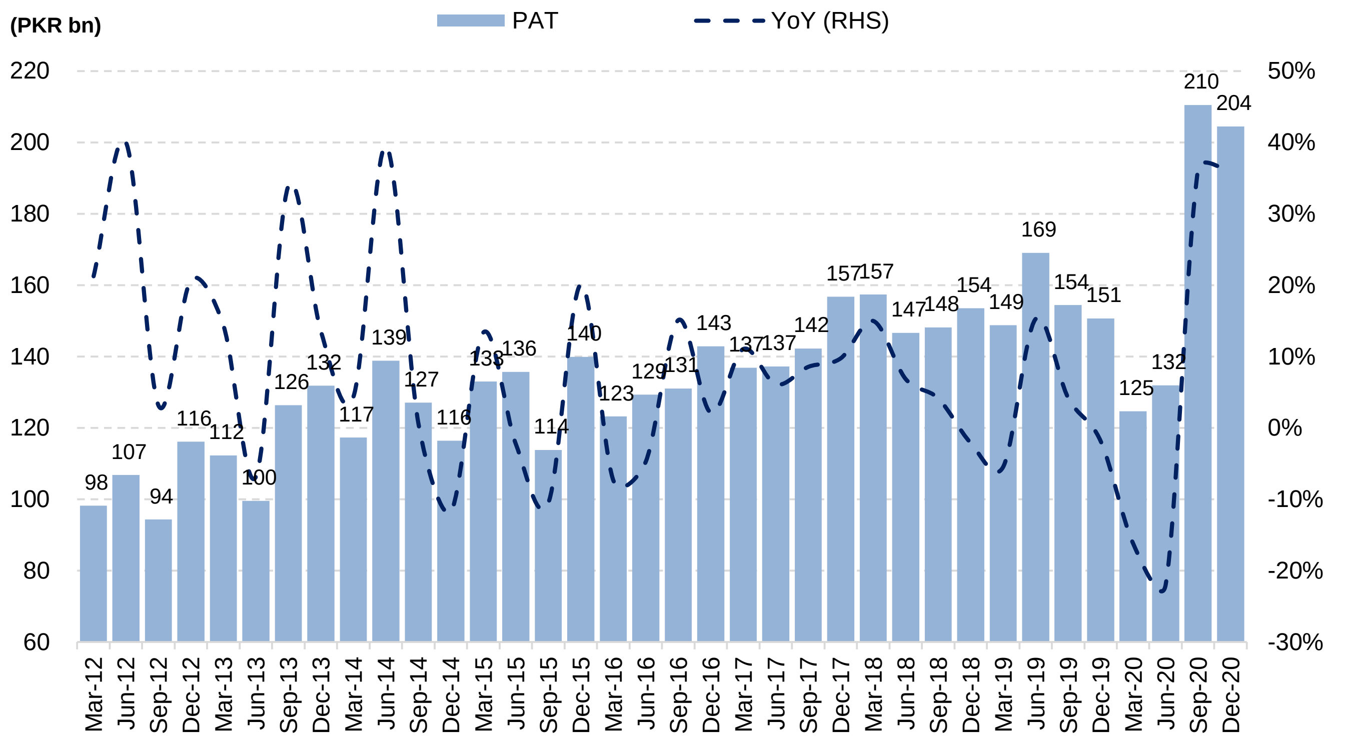


Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

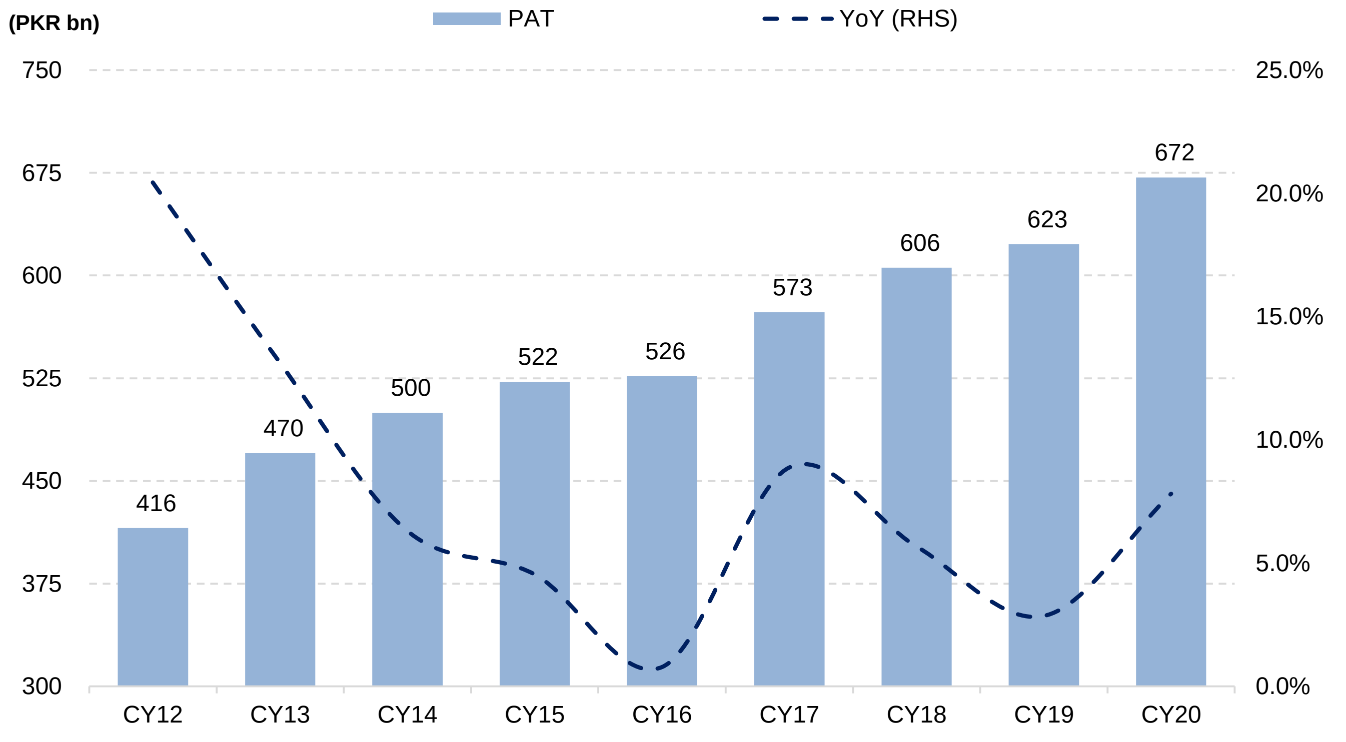
KSE-100 Profitability

Exhibit: Historical Trend of KSE100 Profitability (Quarterly basis)



Source (s): Company Financials, AHL Research

Exhibit: Historical Trend of KSE100 Profitability (Yearly basis)

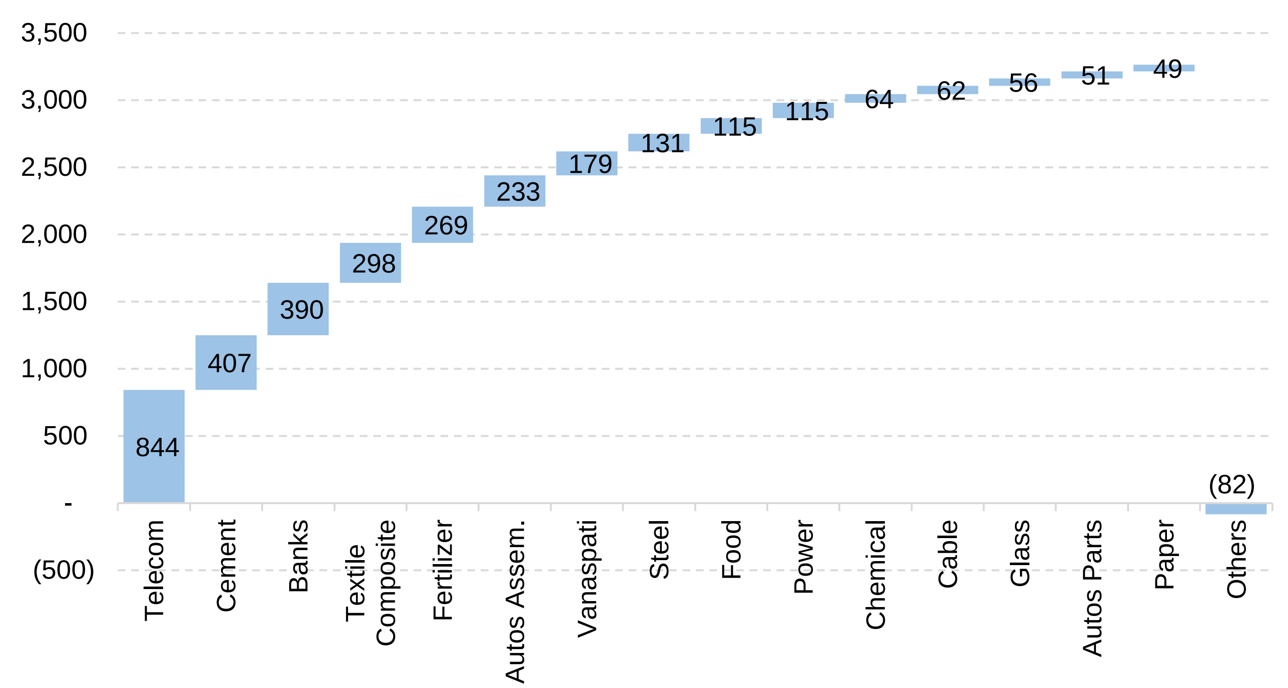


Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

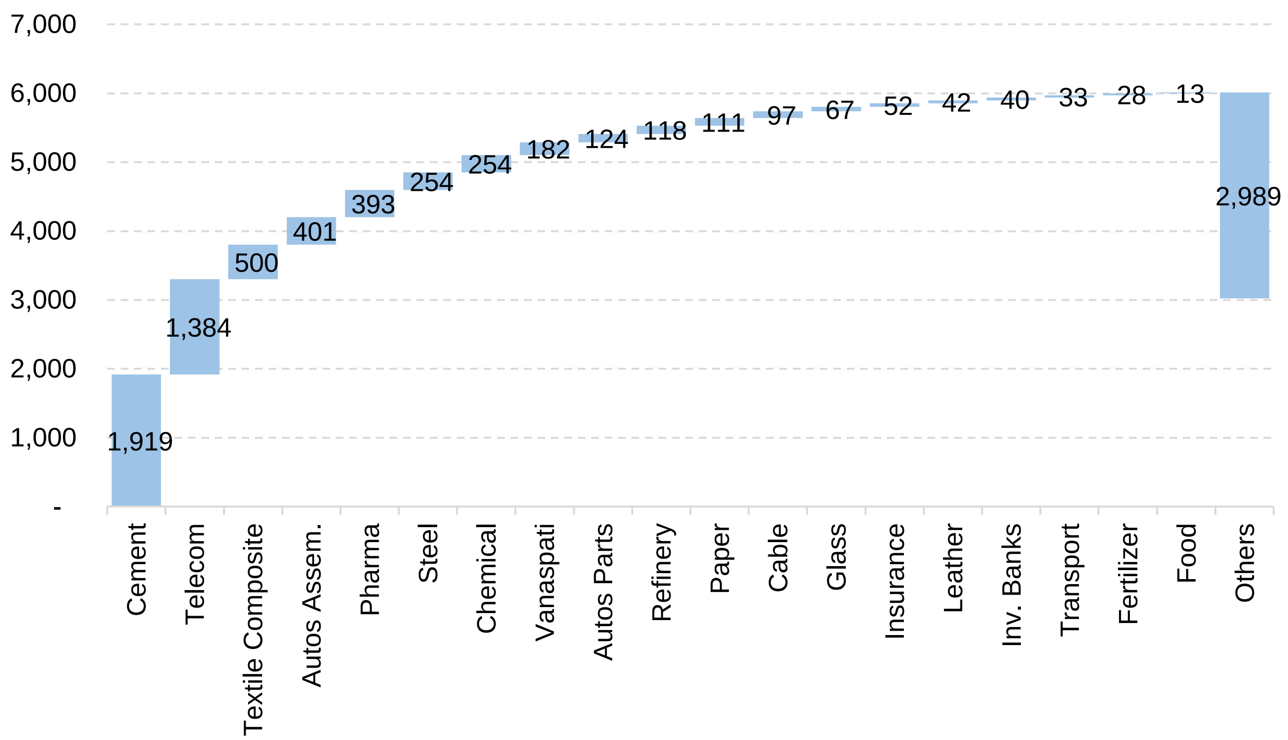
KSE-100 Index Contributions (Graphs)

Exhibit: Sector Wise Index Contribution (4QCY20)



Source (s): Company Financials, AHL Research

Exhibit: Sector Wise Index Contribution (CY20)



Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

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Pakistan Macros

Exhibit: Pakistan Macros

Pakistan Macros		CY12	CY13	CY14	CY15	CY16	CY17	CY18	CY19	CY20
Currency and Inflation										
PKR/USD	Average	93.5	101.7	101.1	102.8	104.8	105.4	121.9	149.9	161.8
	PKR Dep.	*-7.6%*	*-8.0%*	*0.6%*	*-1.7%*	*-1.9%*	*-0.6%*	*-13.5%*	*-18.7%*	*-7.4%*
	Closing	97.1	105.4	100.6	104.8	104.4	111.0	138.9	154.8	160.3
	PKR Dep.	*-7.4%*	*-7.8%*	*4.8%*	*-4.0%*	*0.4%*	*-5.9%*	*-20.1%*	*-10.3%*	*-3.4%*
CPI Inflation	Average	9.7%	7.7%	7.2%	2.5%	3.8%	4.6%	5.3%	9.4%	9.3%
	▲bps	*(273)*	*(205)*	*(45)*	*(468)*	*121*	*83*	*74*	*403*	*(2)*
Policy Rate	Average	11.2%	9.5%	9.9%	7.0%	5.8%	5.8%	7.4%	12.1%	8.6%
	▲bps	*(213)*	*(175)*	*46*	*(292)*	*(117)*	*(8)*	*167*	*473*	*(352)*
	Closing	9.5%	10.0%	9.5%	6.0%	5.8%	5.8%	10.0%	13.3%	7.0%
	▲bps	*(250)*	*50*	*(50)*	*(350)*	*(25)*	*-*	*425*	*325*	*(625)*
External Sector										
Balance of Payments										
Exports of Goods	USD bn	24.8	25.1	24.8	22.7	21.8	23.2	24.8	24.8	21.9
Exports of Goods	▲YoY	*-5.8%*	*1.3%*	*-1.3%*	*-8.4%*	*-3.9%*	*6.2%*	*7.2%*	*-0.2%*	*-11.6%*
Imports of Goods	USD bn	40.4	41.2	42.7	39.8	42.2	52.8	56.8	46.5	43.5
Imports of Goods	▲YoY	*3.6%*	*2.1%*	*3.5%*	*-6.7%*	*6.0%*	*25.0%*	*7.6%*	*-18.1%*	*-6.5%*
Trade Balance of Goods	USD bn	(15.6)	(16.1)	(17.9)	(17.1)	(20.4)	(29.6)	(31.9)	(21.7)	(21.6)
Trade Balance of Goods	▲YoY	*23.1%*	*3.2%*	*11.2%*	*-4.4%*	*19.1%*	*45.2%*	*7.8%*	*-31.9%*	*-0.7%*
Remittances	USD bn	14.0	14.6	17.2	19.2	19.7	19.7	21.0	22.1	26.0
Remittances	▲YoY	*14.2%*	*4.4%*	*17.9%*	*11.8%*	*2.5%*	*-0.1%*	*6.7%*	*5.2%*	*17.4%*
Current Account Balance	USD bn	(2.3)	(4.4)	(3.7)	(2.8)	(7.2)	(16.2)	(18.9)	(7.1)	0.2
Current Account Balance	% of GDP	*-1.0%*	*-1.9%*	*-1.3%*	*-1.0%*	*-2.4%*	*-5.2%*	*-6.9%*	*-2.7%*	*0.1%*
Foreign Exchange Reserves	USD bn	13.9	8.3	15.3	20.8	23.2	20.2	13.8	17.9	20.3
Foreign Exchange Reserves	▲YoY	*-18.6%*	*-40.0%*	*83.7%*	*36.3%*	*11.5%*	*-13.0%*	*-31.8%*	*30.3%*	*13.3%*
With SBP	USD bn	9.0	3.5	10.5	15.9	18.3	14.1	7.2	11.3	13.2
With Banks	USD bn	4.9	4.8	4.8	4.9	4.9	6.1	6.6	6.6	7.1
Foreign Investment										
Foreign Direct Investment	USD bn	0.9	1.3	1.9	1.7	2.6	2.5	1.7	2.2	2.2
Foreign Direct Investment	▲YoY	*-35.3%*	*55.3%*	*41.6%*	*-11.4%*	*54.1%*	*-3.1%*	*-30.4%*	*27.8%*	*-2.8%*
Debt Profile										
External Debt	PKR bn	4,608	4,758	4,731	5,073	5,461	6,693	9,101	10,993	11,952
External Debt	% of GDP	*20.6%*	*18.9%*	*17.2%*	*17.4%*	*17.1%*	*19.3%*	*24.0%*	*26.3%*	*26.2%*
Domestic Debt	PKR bn	8,328	10,227	11,509	12,880	14,193	15,437	17,536	21,676	24,310
External Debt	% of GDP	*37.2%*	*40.6%*	*41.9%*	*44.3%*	*44.5%*	*44.6%*	*46.2%*	*51.9%*	*53.3%*
Total Debt	PKR bn	12,936	14,985	16,240	17,953	19,653	22,130	26,637	32,669	36,262
Total Debt	% of GDP	*57.8%*	*59.5%*	*59.2%*	*61.7%*	*61.6%*	*63.9%*	*70.1%*	*78.3%*	*79.6%*
Fiscal										
Total Revenue	PKR bn	2,893	3,186	3,721	4,187	4,433	5,331	5,170	5,806	6,391
Total Expenditure	PKR bn	4,355	4,935	5,221	5,507	6,066	7,192	7,664	9,215	9,911
Budget Deficit	PKR bn	1,462	1,749	1,500	1,320	1,633	1,861	2,494	3,410	3,520
Budget Deficit	% of GDP	*6.7%*	*7.3%*	*5.6%*	*4.6%*	*5.2%*	*5.5%*	*7.1%*	*8.5%*	*8.1%*
Credit Ratings										
Standard & Poor's (S&P)	Rating	B-	B-	B-	B-	B	B	B	B-	B-
	Outlook	Stable	Stable	Stable	Positive	Stable	Stable	Stable	Stable	Stable
Moody's	Rating	Caa2	Caa2	Caa2	B3	B3	B3	B3	B3	B3
	Outlook	Negative	Negative	Stable	Stable	Stable	Stable	Negative	Stable	Stable

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

Commercial Banks

Asset re-pricing suppresses earnings sequentially

- Profitability of the KSE-100 index banking sector posted a 33% YoY uptick during CY20 led by a 27% acceleration in the sector's NII and phenomenal capital gains (+14x YoY). On a sequential basis, the banking sector witnessed an attrition in earnings during 4QCY20 with PAT declining by 30% QoQ, majorly attributable to a 7% decline in NII and significantly lower capital gains (-83% QoQ).
- Net Interest Income for the sector was up 27% YoY during CY20, while declining 7% QoQ. Lag between asset and liability re-pricing provided a major boost to NIMs initially. However during 3QCY20 and 4QCY20, NIMs started facing attrition with asset re-pricing kicking in following rate cuts, suppressing mark up income (which declined 8% QoQ during 4QCY20), as there was re-pricing particularly of the banks' investment books. Interest expense contracted 9% QoQ, which helped prevent a very sharp deterioration in NII. Spreads of the sector settled at 4.5% as at Dec'20 against 4.8% as at Sep'20. Non-Funded Income was up 14% YoY led by aggressive capital gains (+14x YoY) majorly on federal government securities, as rate cuts led to revaluation gains. Fee income was down 4% YoY, but picked up in 4QCY20 posting an 18% QoQ jump due to gradual recovery in trade volumes amid revival of economic activities. NFI declined 10% QoQ due to 83% lower capital gains. Support came in from fee income (+18% QoQ) and dividend income (+2x QoQ).
- Provisioning of the KSE-100 banking sector posted a mammoth 158% YoY increase during CY20, however declined by 7% QoQ in 4QCY20. Banks have booked heavy general provisioning this year to build buffers against any possible NPL accretion due to the economic hiatus post outbreak of the pandemic. To recall, the SBP has provided a one-year moratorium on principal repayments as part of its relief measures to support the economy. Provisioning of the sector came down sequentially as most banks had adequately beefed up their coverage ratios in 3QCY20. However a few banks such as MEBL, HBL, MCB and HMB booked higher provisioning QoQ during 4QCY20 (269%, 22%, 92%, and 309% respectively).
- OPEX of the sector posted a 6% jump YoY during CY20, while increasing 7% QoQ during 4QCY20. Cost/Income came down to 48% during CY20 against 56% SPLY.
- Notable profitability trends during CY20 included HBL which posted a massive 101% YoY jump followed by NBP (+84% YoY) and HMB (+81% YoY). Other impressive earnings during the same period included BAHL (+60% YoY), AKBL (54% YoY) and MEBL (44% YoY). Quarterly jump during 4QCY20 included just ABL (38%) and UBL (12%) while sequential contraction in earnings was led by NBP (60%), BOP (49%), and HBL (43%).

Exhibit: Banking Sector Profitability

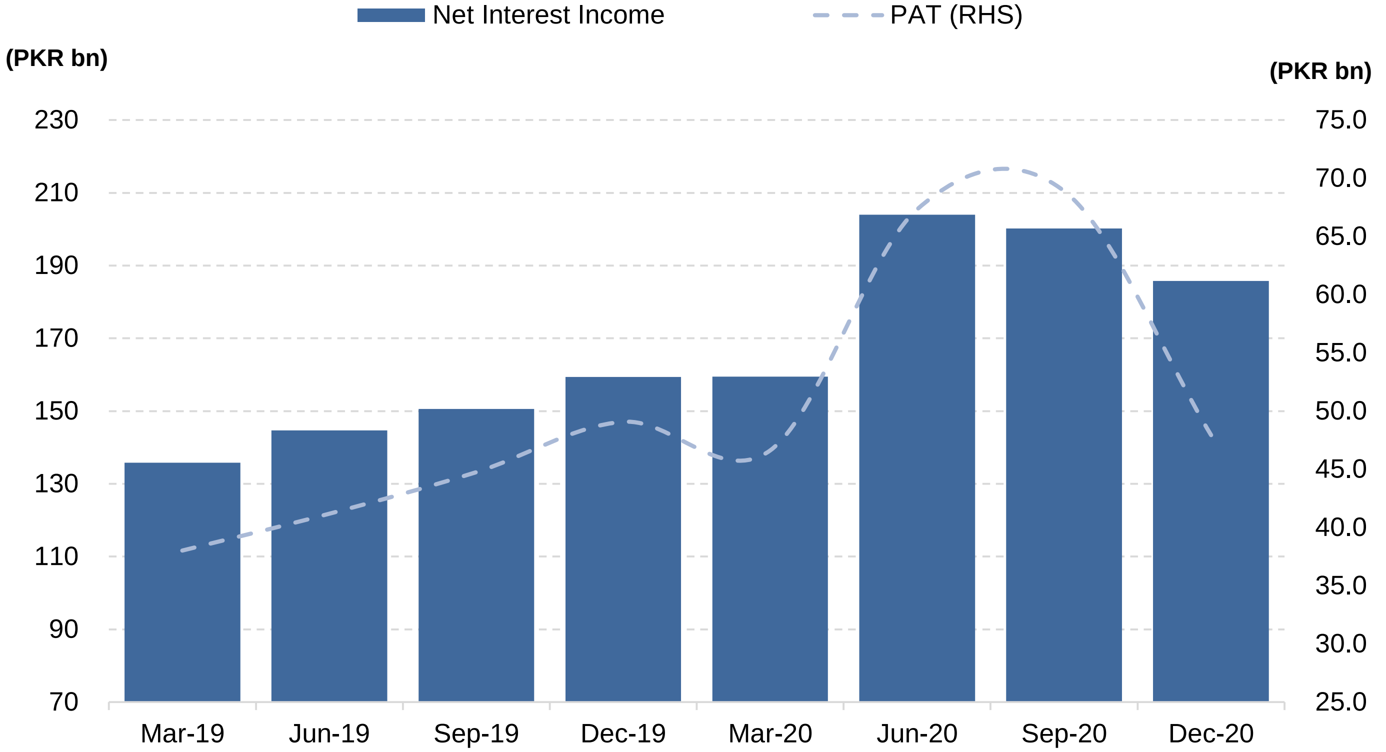
	CY20	CY19	YoY	4QCY20	4QCY19	YoY	3QCY20	QoQ
ABL	18,378	14,489	27%	5,744	4,852	18%	4,156	38%
AKBL	10,846	7,029	54%	2,651	2,647	0%	3,228	-18%
BAFL	10,832	13,047	-17%	2,176	3,550	-39%	2,877	-24%
BAHL	17,948	11,195	60%	4,715	4,192	12%	5,989	-21%
BOP	6,819	8,160	-16%	1,095	2,070	-47%	2,147	-49%
FABL	6,681	6,004	11%	1,158	1,602	-28%	1,729	-33%
HBL	30,892	15,333	101%	5,700	6,696	-15%	10,048	-43%
HMB	12,053	6,646	81%	3,732	1,603	133%	4,164	-10%
MCB	29,410	23,868	23%	6,003	7,716	-22%	9,981	-40%
MEBL	22,397	15,584	44%	4,102	4,727	-13%	6,756	-39%
NBP	30,490	16,583	84%	4,369	(19)	nm	11,054	-60%
SCBPL	13,133	16,017	-18%	1,225	4,585	-73%	2,057	-40%
UBL	20,938	19,095	10%	5,271	4,865	8%	4,721	12%
Total	**230,816**	**173,049**	**33%**	**47,942**	**49,085**	**-2%**	**68,909**	**-30%**

Source (s): Company Financial, AHL Research

Commercial Banks

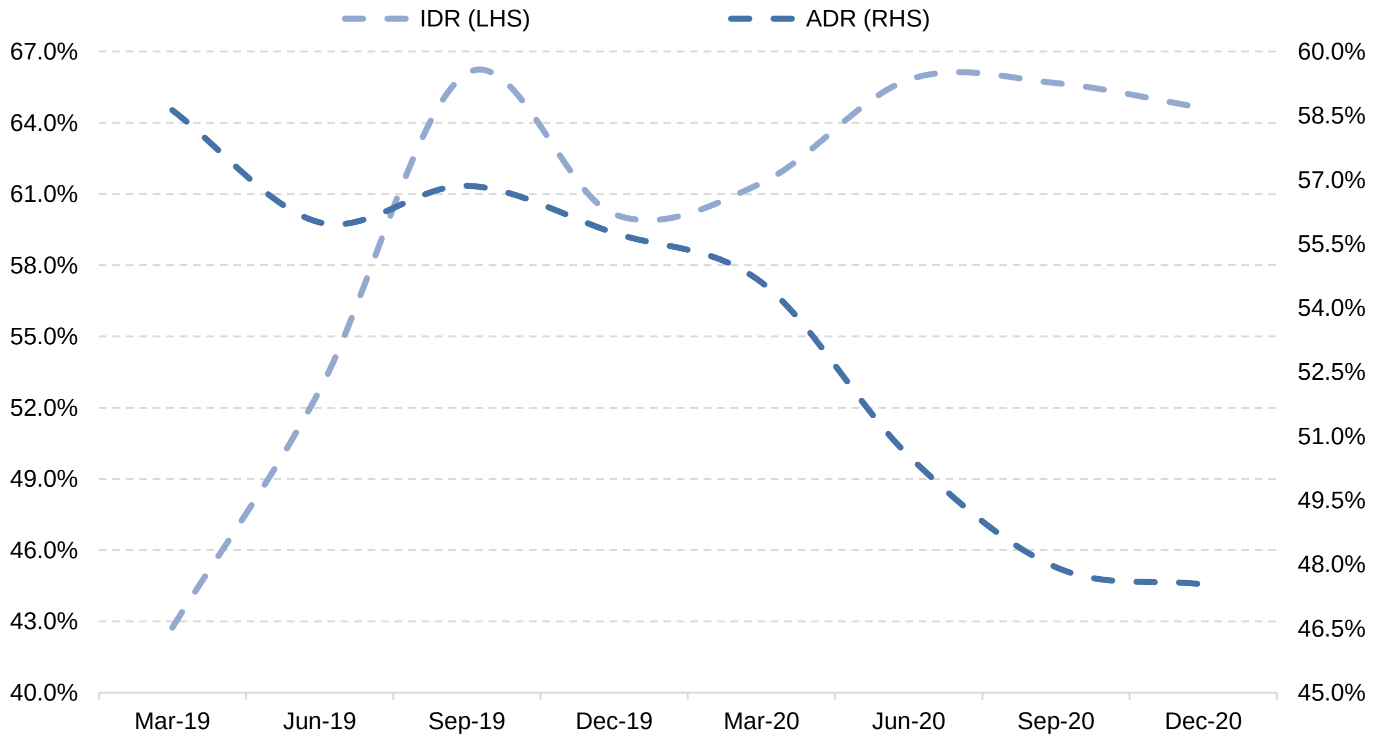
Asset re-pricing suppresses earnings sequentially

Exhibit: Historical Net Interest Income and PAT of Banking Sector



Source (s): Company Financials, AHL Research

Exhibit: Banking Industry IDR and ADR

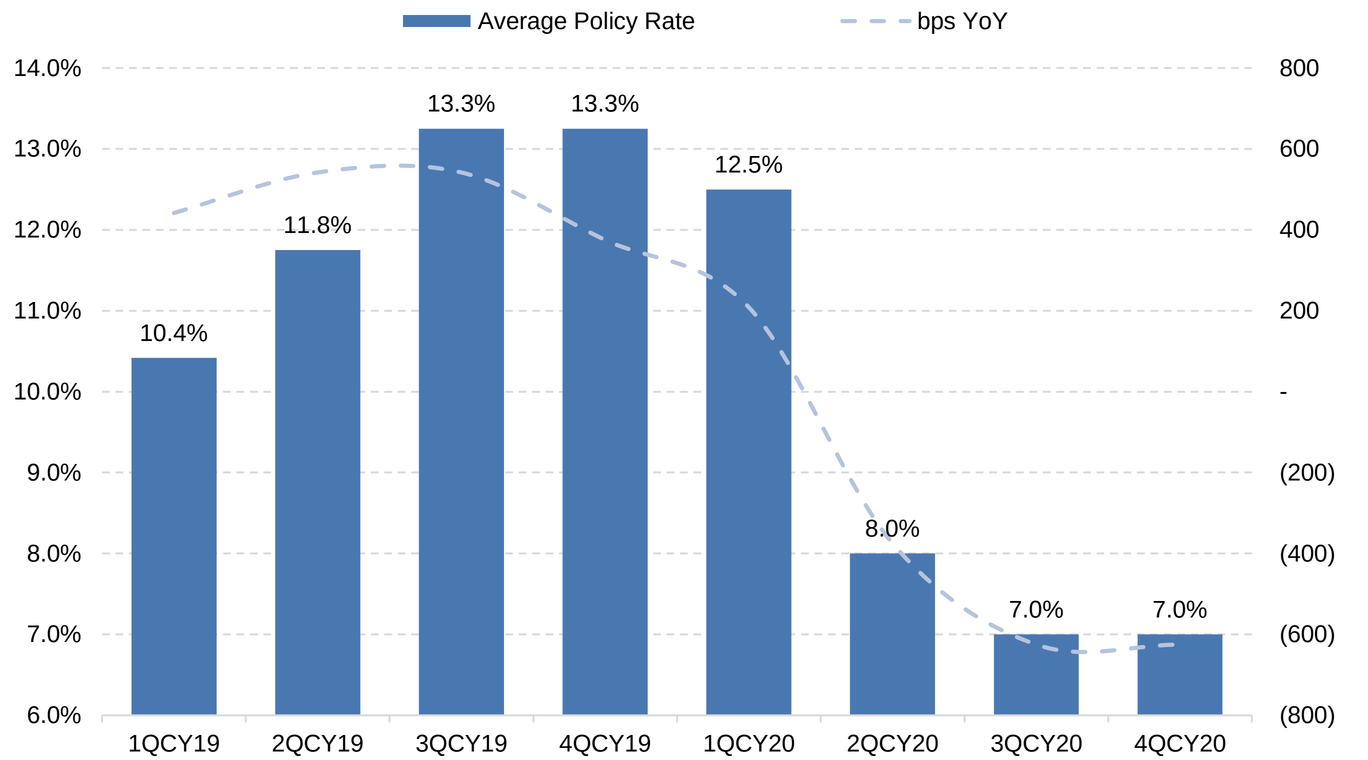


Source (s): SBP, AHL Research

Commercial Banks

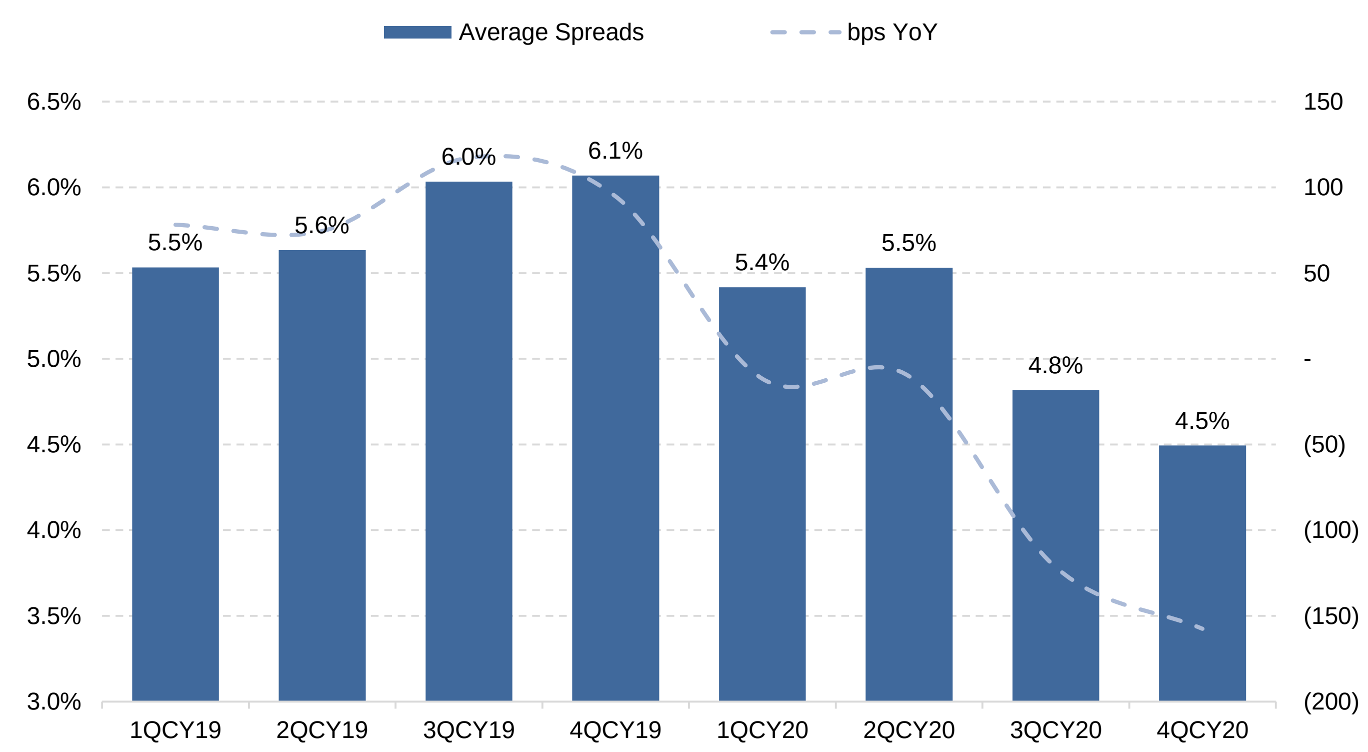
Asset re-pricing suppresses earnings sequentially

Exhibit: Discount Rate Trend



Source (s): SBP, AHL Research

Exhibit: Banking Sector Spreads



Source (s): SBP, AHL Research

Fertilizer

Earnings Portray a Significant Jump of 101% YoY

- Fertilizer sector's profitability during 4QCY20 showcased a massive surge of 101% YoY at PKR 16,792mn. However, on QoQ basis, the sector's bottom-line dipped by 8%.
- The sector's revenue displayed a 9% YoY drop during 4QCY20, which comes on the back of i) 1% and 8% YoY decline in urea and DAP offtake, respectively, and ii) 15% YoY slide in urea prices.
- Sector gross margins improved to 28% during 4QCY20 against to 26% in 4QCY19. The increase in gross margins was led by lower effective gas prices along with decline in trading business volumes.
- FFC's bottom-line climbed up by 52% YoY in 4QCY20 to clock-in at PKR 7,055mn in contrast to PKR 4,643mn in SPLY. Net sales depicted a drop of 11% arriving at PKR 29,237mn amid fall in urea sale volumes by 3% YoY along with tumble in urea prices. While, DAP offtake witnessed a surge of 24% YoY tagged with an uptick in DAP prices by 8% YoY. The company's other income declined by 12% YoY to PKR 1,471mn attributable to fall in income from financial assets. Furthermore, financial charges plunged by 43% YoY in 4QCY20 on account of lower interest rates. Moreover, the company booked a gain on extinguishment of original GIDC liability of PKR 5,927mn in 4QCY20.
- EFERT's earnings witnessed an uptick of 4% YoY, settling at PKR 6,643mn during 4QCY20 compared to PKR 6,361mn in SPLY. Topline showcased a decline of 36% YoY, arriving at PKR 27,708mn in 4QCY20 on the back of fall in urea and DAP offtake by 10% and 69% YoY, respectively followed by a fall in urea prices. Gross margins reached 36.15% (up by 270bps) given decline in trading business volumes. Whereas, other income dipped by 5% YoY which is attributable to reduction in income on government securities, term deposit certificates and bank deposits. Moreover, finance cost plummeted by 28% YoY on account of lower interest rates. Furthermore, the company recorded a re-measurement gain on provision for GIDC at PKR 2,121mn in 4QCY20.

Exhibit: Fertilizer Sector Profitability

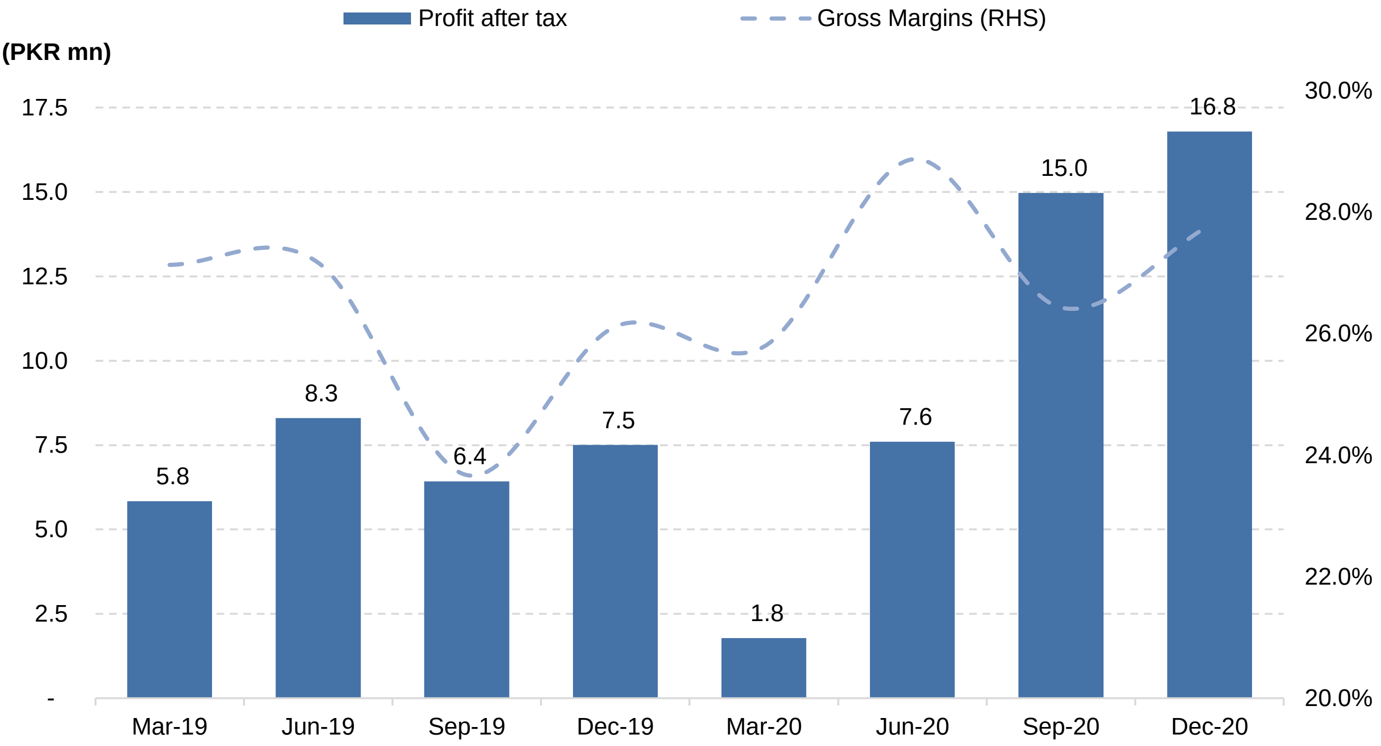
PKR mn	CY20	CY19	YoY	4QCY20	4QCY19	YoY	3QCY20	QoQ
DAWH	7,583	5,653	34%	2,197	1,727	27%	3,589	-39%
EFERT	18,133	16,871	7%	6,643	6,361	4%	7,034	-6%
ENGRO	25,100	16,533	52%	6,755	3,611	87%	9,286	-27%
FFBL	2,192	(5,921)	nm	3,094	(3,503)	nm	3,306	-6%
FFC	20,819	17,110	22%	7,055	4,643	52%	4,628	52%
Total*	**73,828**	**50,247**	**47%**	**25,744**	**12,838**	**101%**	**27,843**	**-8%**
Total**	**31,583**	**15,991**	**97%**	**16,792**	**4,649**	**261.2%**	**12,567**	**34%**

Source (s): Company Financials, AHL Research, * Ex. FATIMA, **Ex. FATIMA, ENGRO & DAWH

Fertilizer

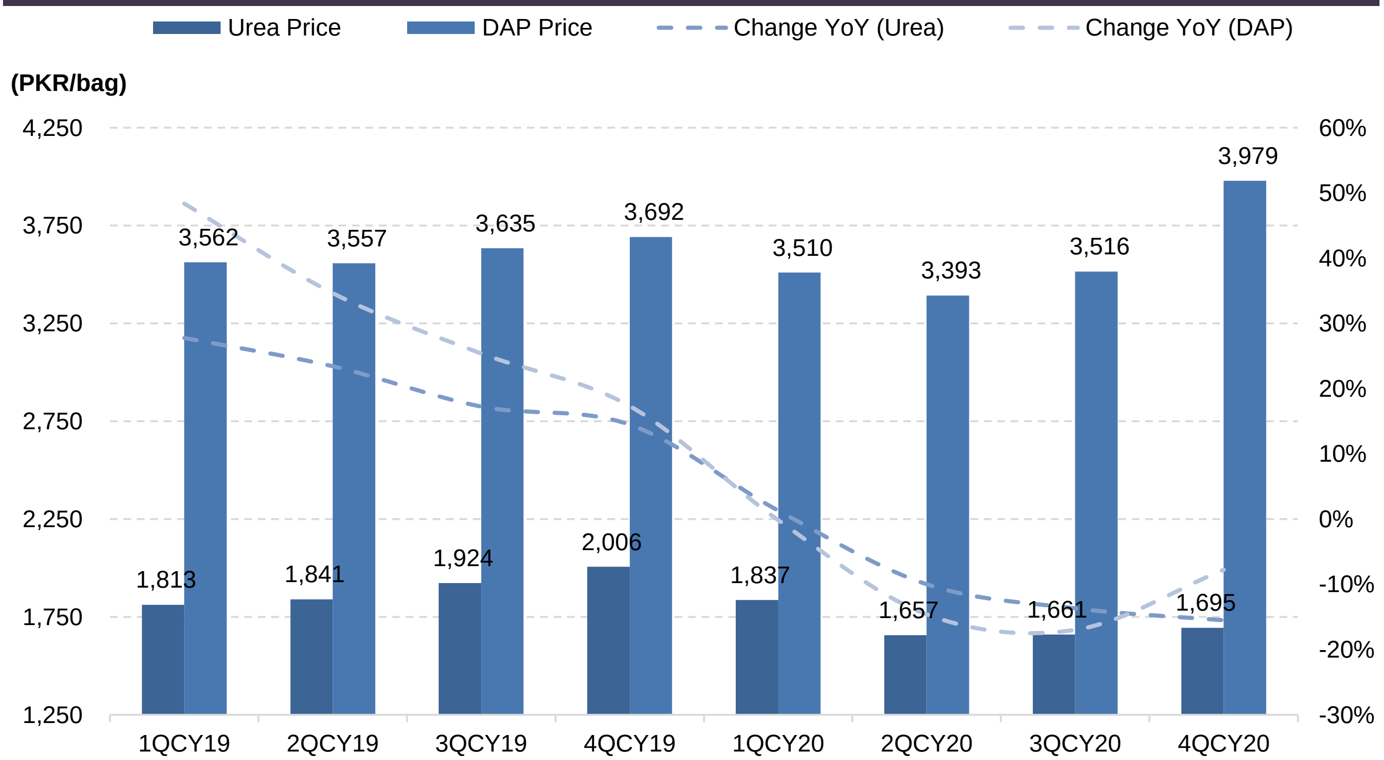
Earnings Portray Significant Jump of 101% YoY

Exhibit: Historical Profitability and GMs of Fertilizer Sector



Source (s): Company Financials, AHL Research

Exhibit: Urea and DAP Prices Trend

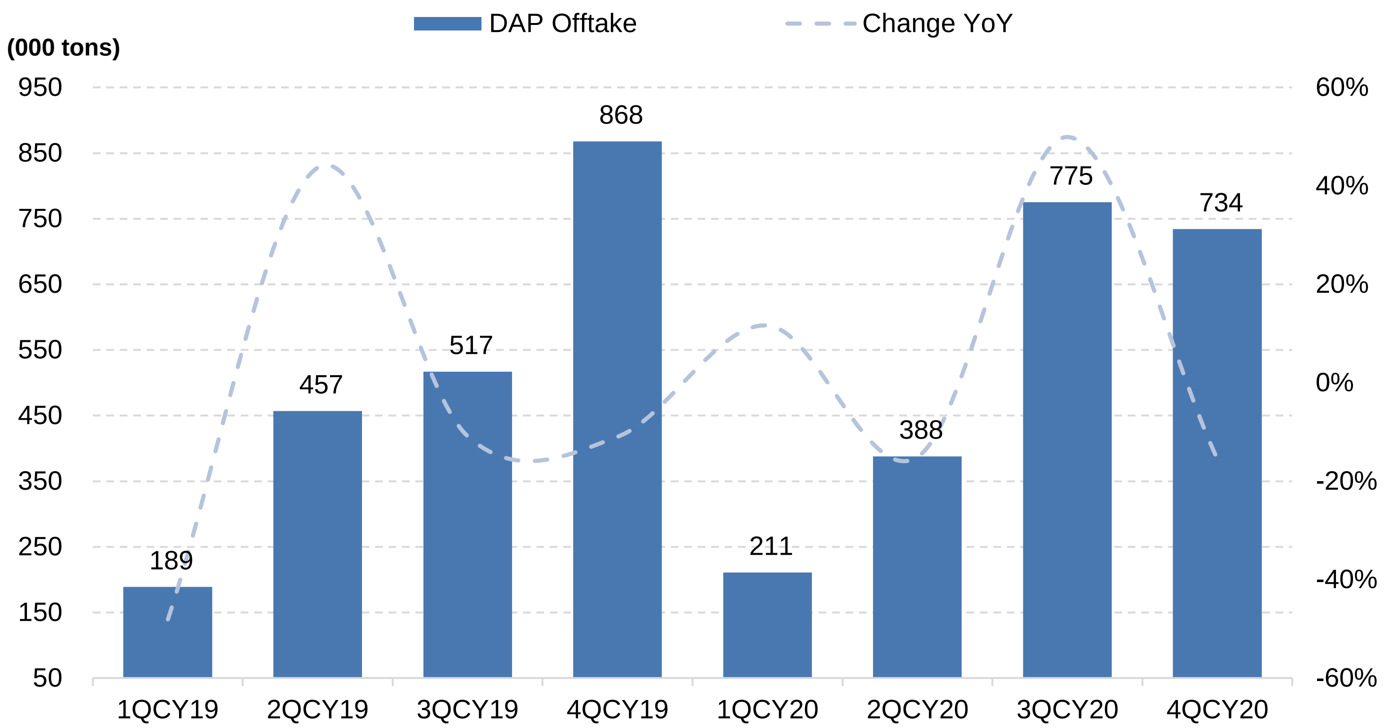


Source (s): NFDC, AHL Research

Fertilizer

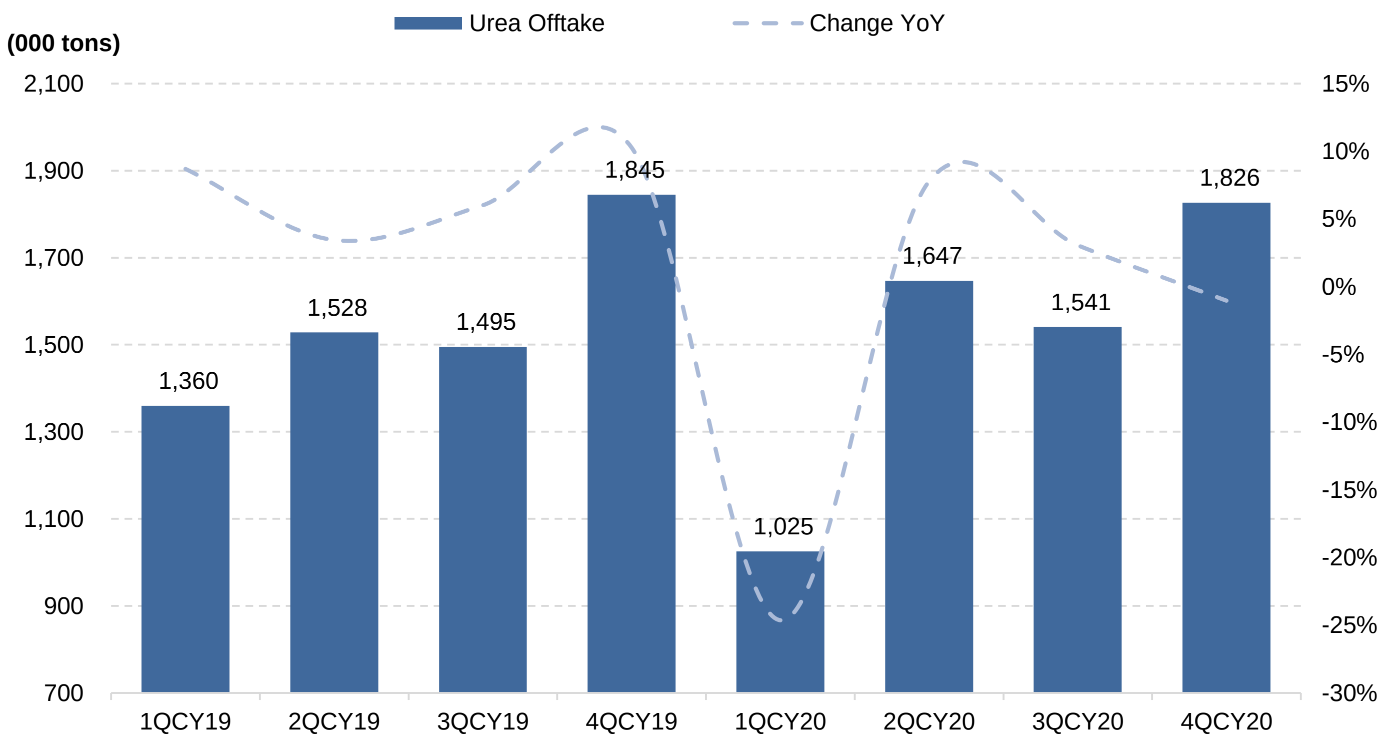
Earnings Portray Significant Jump of 101% YoY

Exhibit: DAP Off-take decreased by 15% YoY during 4QCY20



Source (s): NFDC, AHL Research

Exhibit: Urea Off-take registered a decline of 1% YoY during 4QCY20



Source (s): NFDC, AHL Research

Cements

Pricing Confidence Restored

- The cement sector profitability posted an eight quarter high of PKR 7,873mn in 2QFY21 compared to PKR 828mn in SPLY and PKR 3,903mn in 1QFY21. Pertinently, all players displayed a positive bottom-line amid strong demand and recovery in prices.
- Revenue of the sector underwent a growth of 25% YoY to PKR 59.98bn in 2QFY21 primarily led by recovery in retention prices together with a 10% YoY jump in dispatches to 15.03mn tons (local offtake depicted a rise of 13% YoY to 12.76mn tons as construction package announced earlier last year has propelled domestic demand whereas borrowing by the construction sector has also recently witnessed a spike amid low interest rates and SBP's stipulation to banks to enhance mortgage financing to at least 5% of their private sector credit offtake). Albeit, exports fell by 4% YoY to 2.27mn tons amid second wave of COVID-19 together with congestion at the ports (priority given to import of sugar and wheat as opposed to clinker exports so as to contain inflationary pressure).
- As a result of rebound in retention prices, volumetric jump and soft coal prices, sector-wide gross margins depicted a drastic accretion of 15ppts YoY to 24.8% during the period under review (2QFY20: 9.8%).
- KOHC and MLCF remained clear outliers with the former posting a bottom-line jump of 101x YoY while the latter managed to turn around losses to a profit. KOHC's revenue rose by 96% YoY in 2QFY21 due to higher retention prices together with a 56% YoY growth in dispatches to 961k tons which, alongside soft coal prices, translated to gross margins of 28% vs. 1.3% in SPLY. Meanwhile MLCF, while displaying a stagnant topline YoY, managed to recuperate margins by 19ppts to 24% in 2QFY21 amid stronger retention prices (offsetting the impact of a decline in dispatches). Whereas a 64% YoY cut in finance cost of MLCF to PKR 317mn, given lower interest rates, also aided the bottom-line.
- Meanwhile LUCK (unconsolidated) exhibited the largest bottom-line in the KSE-100 index cement universe at PKR 2.3bn, undergoing a surge of 2.4x YoY in 2QFY21. This was primarily owed to a 36% YoY upturn in company topline to PKR 15.7bn amid 26% growth in total dispatches (2,567k tons vs. 2,042k tons) as well as higher retention prices. Gross margin went up by 14ppts YoY to 29% during 2QFY21 largely led by strong topline growth, lower coal prices, as well as improved efficiencies from the new line.
- On a QoQ basis, gross margins of the sector observed an improvement of 55bps to 24.8% (1QFY21: 19.2%) aided by improvement in retention prices and 11% QoQ jump in offtake (1QFY21: 13.59mn tons).

Exhibit: Cement Sector Profitability

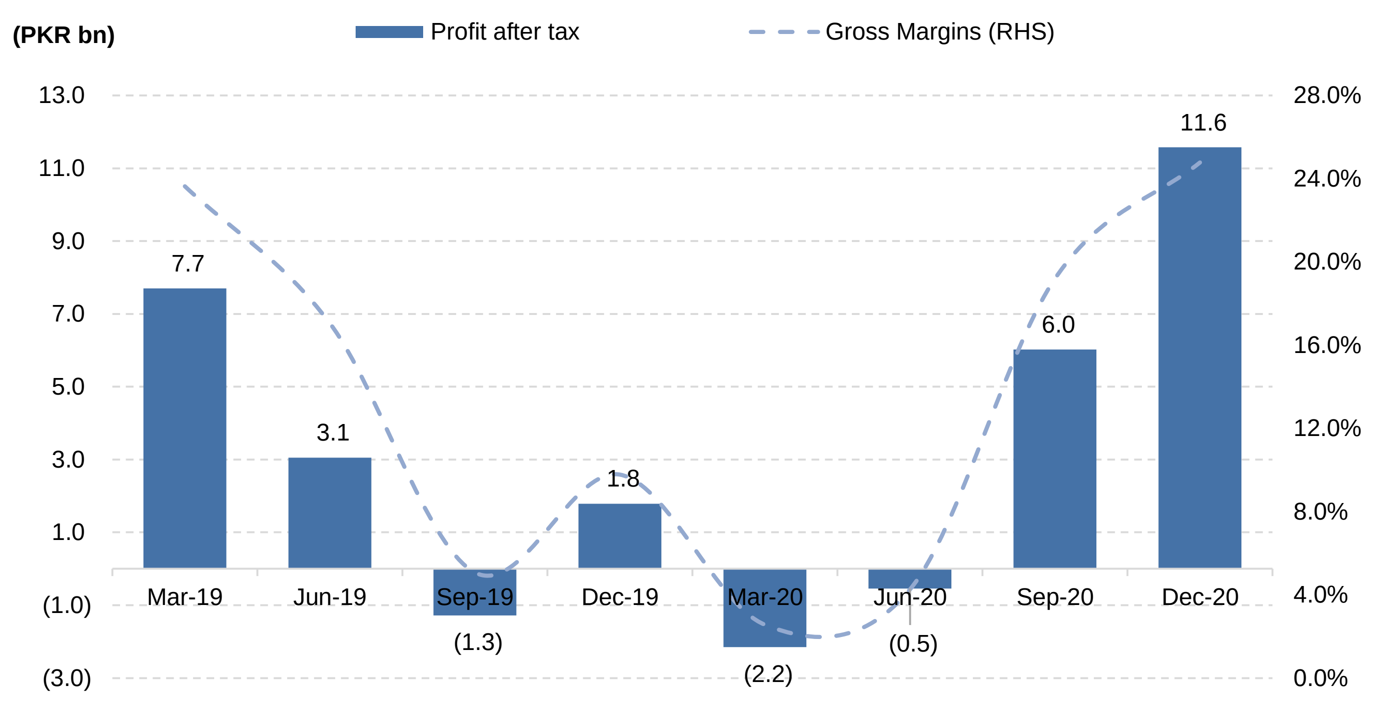
PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
CHCC	1,129	(560)	nm	820	(222)	nm	309	165%
DGKC	801	(847)	nm	1,152	581	2.0x	(351)	nm
FCCL	1,601	482	3.3x	905	189	4.8x	696	30%
KOHC	1,472	98	15.1x	965	10	100.6x	507	90%
LUCK	4,541	1,937	134%	2,315	981	2.4x	2,226	4%
MLCF*	1,625	(1,767)	nm	1,070	(785)	nm	555	93%
PIOC	607	(112)	nm	646	74	8.8x	(40)	nm
Total	**11,776**	**(769)**	**nm**	**7,873**	**828**	**9.5x**	**3,903**	**102%**

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

Cements

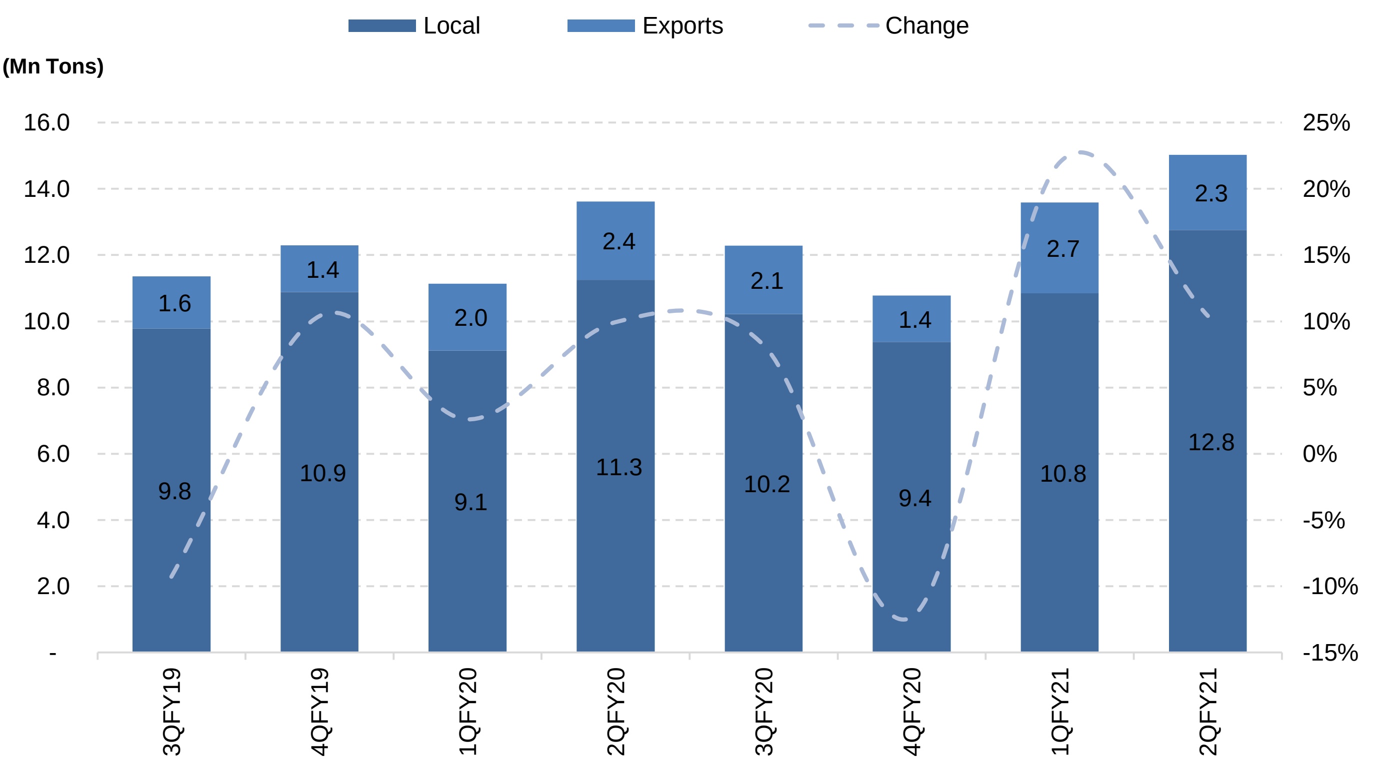
Pricing Confidence Restored

Exhibit: Historical Profitability and GMs of Cement Sector



Source (s): Company Financials, AHL Research

Exhibit: Industry Cement Dispatches

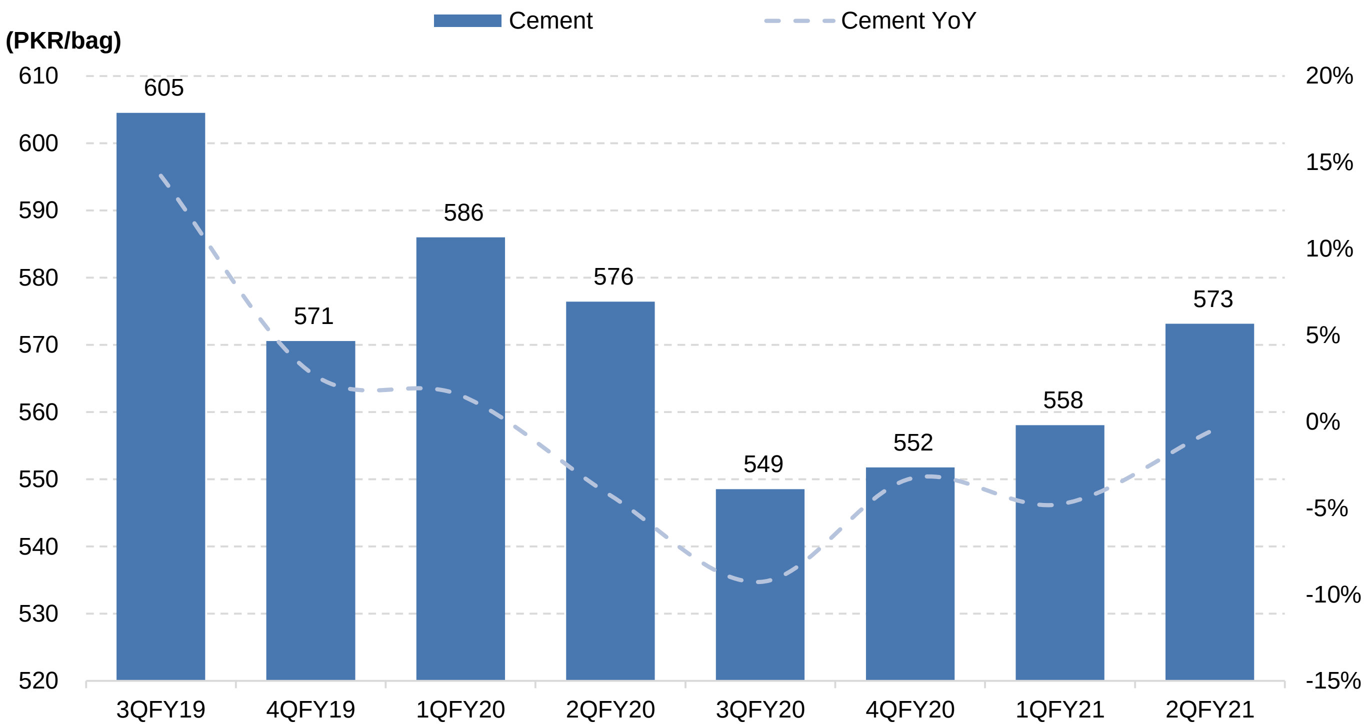


Source (s): APCMA, AHL Research

Cements

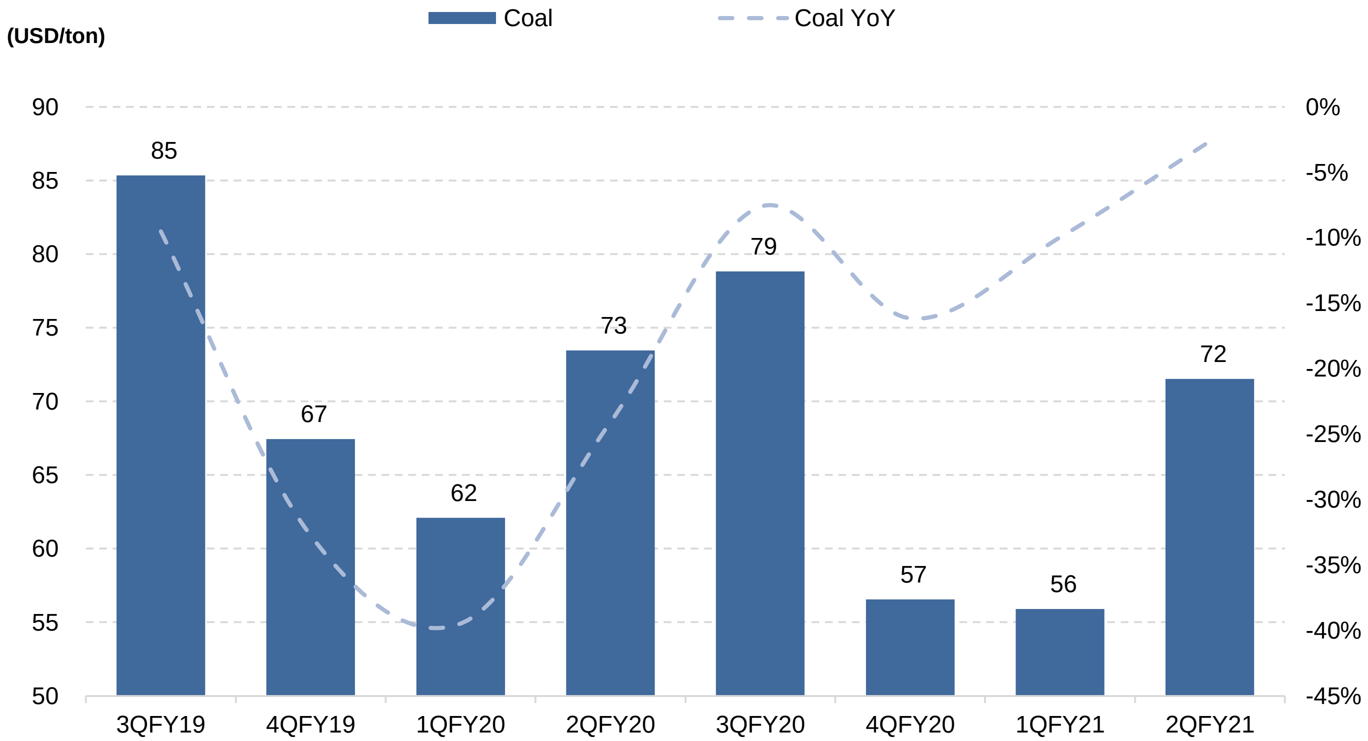
Pricing Confidence Restored

Exhibit: Average Cement Prices decreased by 1% YoY in 2QFY21



Source (s): PBS, AHL Research

Exhibit: Average Coal Prices decreased by 3% YoY during 2QFY21



Source (s): Bloomberg, AHL Research

Exploration and Production

ARIF HABIB LIMITED

Profitability declines by 12% YoY in 2QFY21

- Sector earnings plummet by 12% YoY to PKR 41bn in 2QFY21 owed to a reduction in oil production (AHL universe) by 4% YoY. Meanwhile, gas production (AHL universe) witnessed an uptick of 1% YoY in 2QFY21. Whereas overall country's oil and gas production witnessed a slide of 8% and 4% YoY, respectively in 2QFY21. Furthermore, oil prices plunged by 33% YoY in 2QFY21. Profitability of OGDC and POL witnessed a drop of 24% and 34% YoY, respectively in the quarter. While MARI and PPL depicted growth of 1% and 15% YoY, respectively in bottom-line.
- OGDC's earnings declined by 24% YoY in 2QFY21, settling at PKR 18.9bn (EPS: PKR 4.39) in contrast to PKR 24.8bn (EPS: PKR 5.76) in 2QFY20. Net Sales showcased a 15% YoY fall, arriving at PKR 54.6bn amid 5% and 6% YoY decrease in oil and gas production, respectively, tagged with a nosedive in oil prices. Furthermore, exploration costs clocked-in at PKR 2.3bn during the quarter, down by a massive 65% YoY, on account of one dry well (Sheen Dund-01) incurred during 2QFY21 against three dry wells in SPLY. Moreover, other income portrayed a significant fall of 89% YoY in 2QFY21 on the back of drop in interest income along with higher exchange loss on foreign currency account.
- PPL's profitability clocked-in at PKR 11.9bn (EPS: PKR 4.37) in 2QFY21 in contrast to PKR 10.3bn (EPS: PKR 3.79) in 2QFY20, depicting a jump of 15% YoY. Topline descended by 17% YoY, settling at PKR 36.3bn in 2QFY21 versus PKR 43.7bn in SPLY. The decline in sales is attributable to i) drop in oil and gas production by 6% and 5% YoY, respectively and ii) slide in oil prices. On the other hand, the exploration expenses plunged by 90% YoY in 2QFY21 given absence of dry well during the quarter against two dry wells (Noah X-1 and Talagang X-1) in SPLY. Whereas, other income plummeted by 30% YoY in 2QFY21 on the back of fall in income from loans and bank deposits owed to lower interest rates.
- POL posted a profit after tax of PKR 3.0bn (EPS: PKR 10.64) in 2QFY21 vis-à-vis PKR 4.6bn (EPS: PKR 16.07) in 2QFY20, depicting a reduction of 34% YoY. Revenue reached PKR 8.8bn during 2QFY21, down by 23% YoY amid slump in oil prices followed by 4% and 7% YoY decrease in oil and gas production, respectively. Furthermore, exploration cost witnessed a huge decline of 92% YoY in 2QFY21 attributable to fall in seismic activity during the period. Moreover, other income plunged by 66% YoY in 2QFY21 owed to fall in income from bank deposits and treasury bills along with higher exchange loss on financial assets.
- MARI's earnings witnessed a meagre uptick of 1% YoY in 2QFY21, arriving at PKR 7.3bn (EPS: PKR 54.98) during 2QFY21 compared to PKR 7.3bn (EPS: PKR 54.61) in SPLY. Net sales ascended by 13% YoY, settling at PKR 18.8bn in contrast to PKR 16.7bn in SPLY on the back of surge in oil and gas production of 23% and 12% YoY, respectively. Moreover, the other expenses plummeted by 98% YoY, clocking-in at PKR 3mn in 2QFY21 owed to notable loss in seismic, drilling and processing units in prior year. However, exploration cost climbed up by 23% YoY owed to dry well (Sheen Dund-1) incurred during 2QFY21.

Exhibit: Exploration and Production Sector Profitability

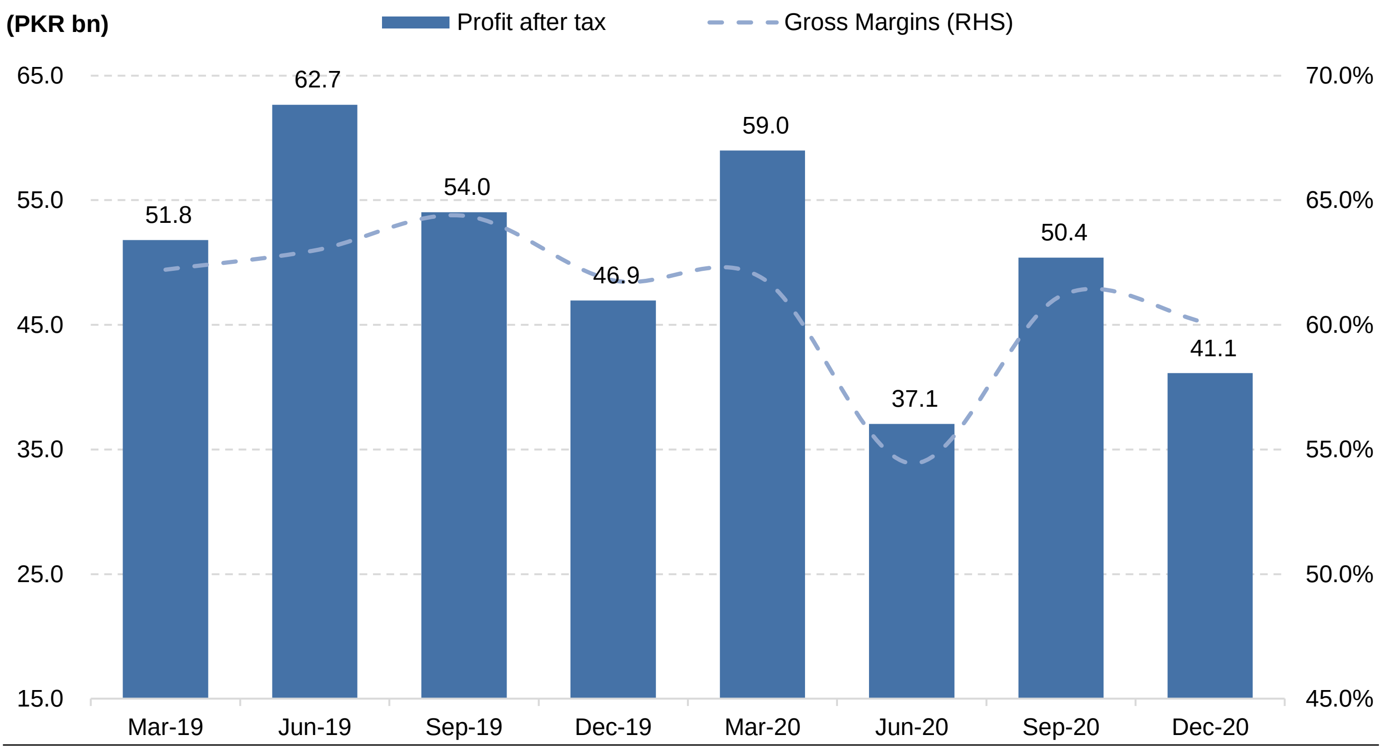
PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
MARI	16,401	14,748	11%	7,335	7,285	1%	9,066	-19%
OGDC	42,225	53,111	-20%	18,882	24,782	-24%	23,344	-19%
POL	6,649	8,568	-22%	3,021	4,560	-34%	3,629	-17%
PPL	26,237	24,554	7%	11,886	10,317	15%	14,351	-17%
Total	**91,513**	**100,982**	**-9%**	**41,123**	**46,945**	**-12%**	**50,390**	**-18%**

Source (s): Company Financial, AHL Research

Exploration and Production

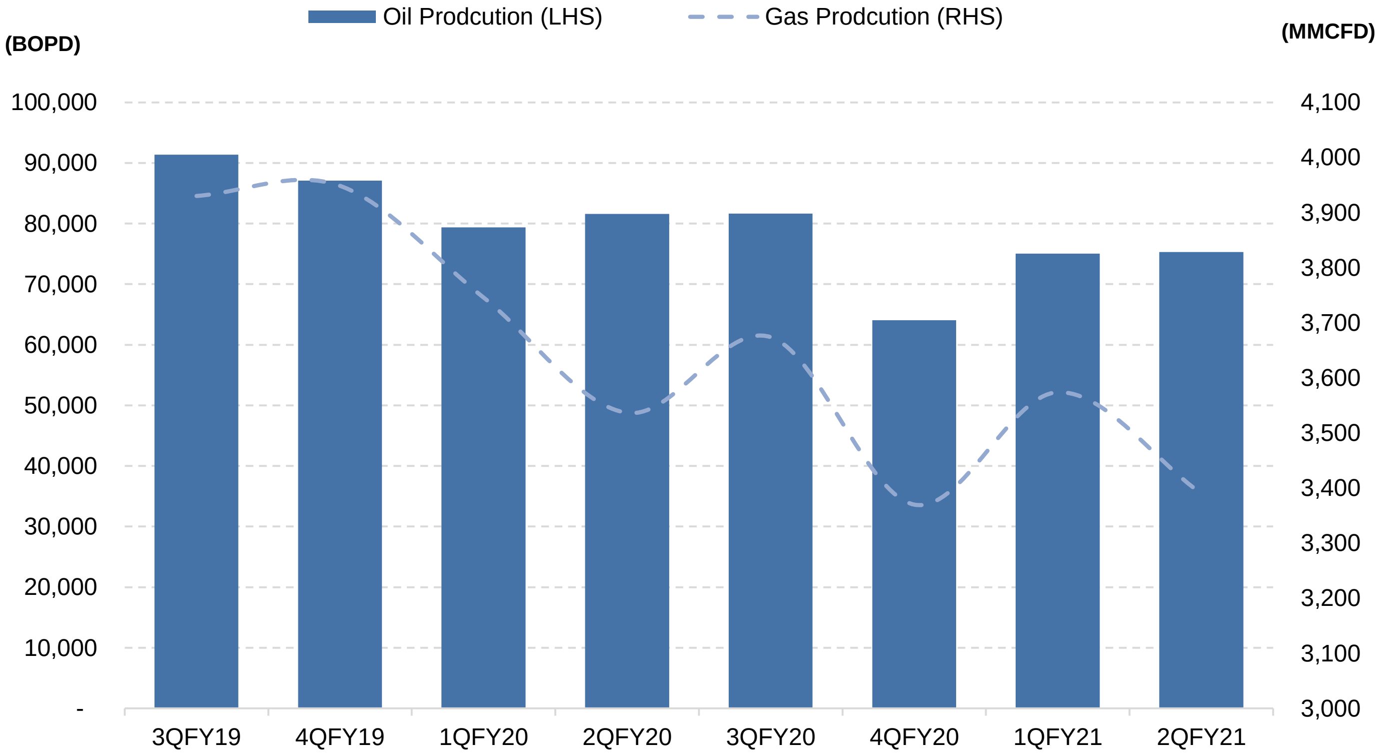
Profitability declines by 12% YoY in 2QFY21

Exhibit: Historical Profitability and GMs of E&P Sector



Source (s): Company Financials, AHL Research

Exhibit: Pakistan's Oil and Gas Production

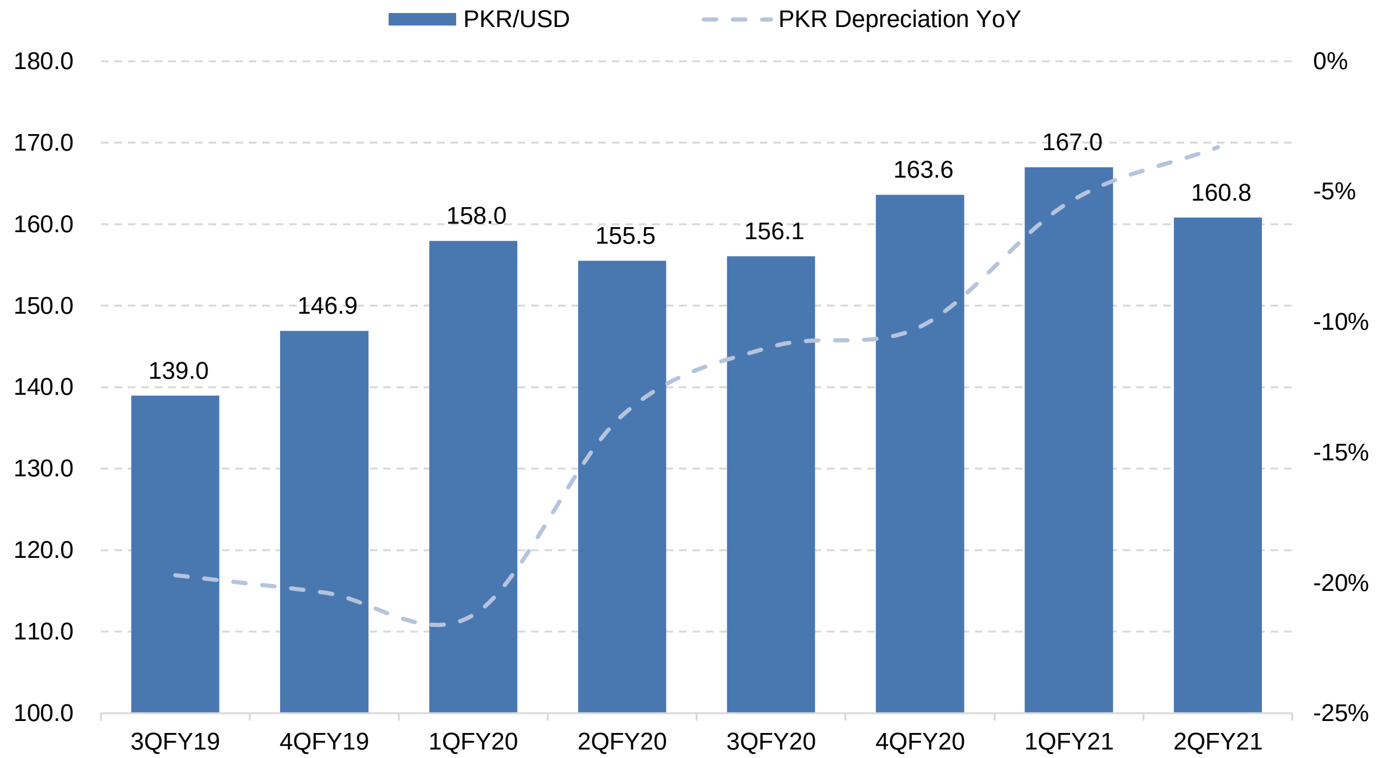


Source (s): PPIS, AHL Research

Exploration and Production

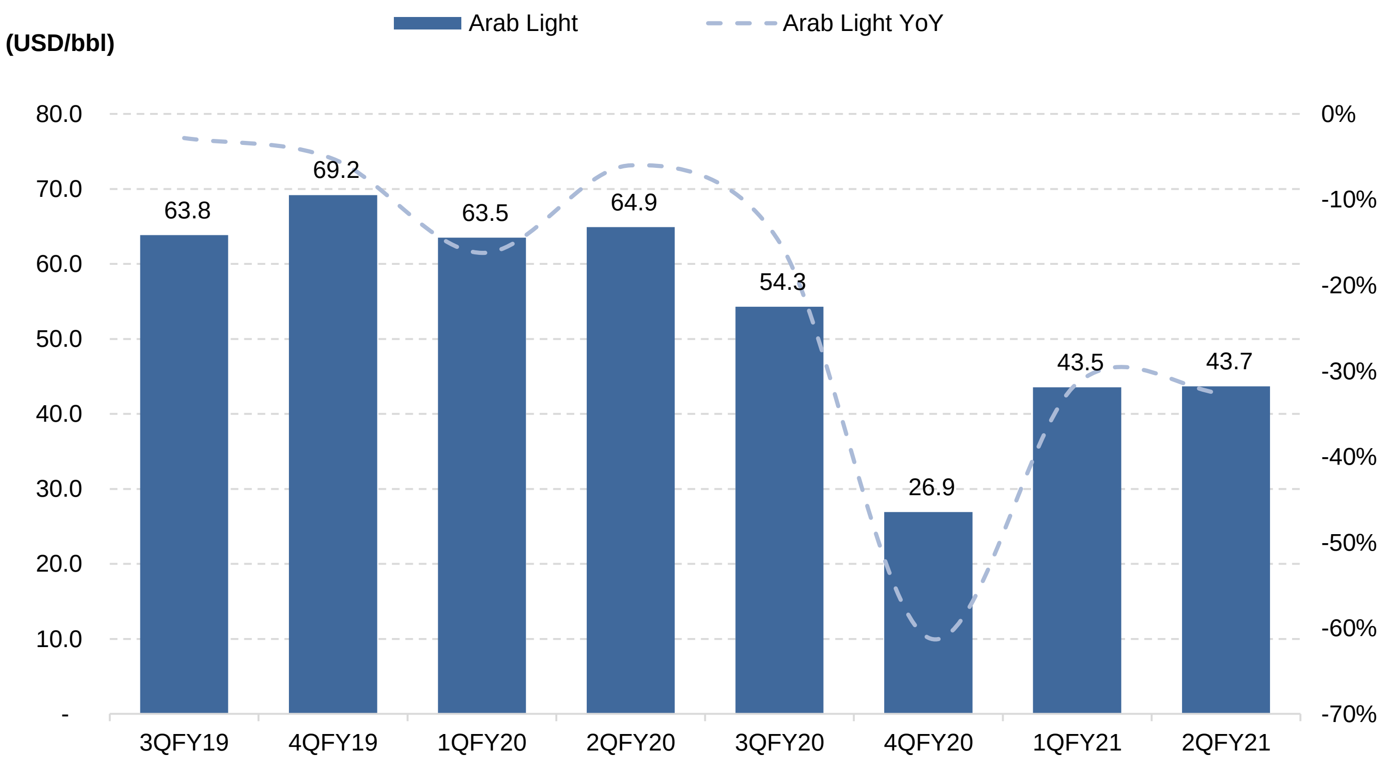
Profitability declines by 12% YoY in 2QFY21

Exhibit: 3% YoY PKR depreciation during 2QFY21



Source (s): SBP, AHL Research

Exhibit: Oil Prices dropped by 33% YoY during 2QFY21



Source (s): Bloomberg, AHL Research

Power Generation and Distribution

Profitability jumped up by 56% YoY during 2QFY21

- Profitability of the Power sector jumped up by 56% YoY to PKR 19.3bn during 2QFY21. On a QoQ basis, it increased by 25%. The rise in profitability was witnessed due to recognition of profit from coal-based power plants, higher dollar indexation, lower finance cost and lower T&D losses. Net sales of the sector during 2QFY21 witnessed an increase of 2% YoY due to 82% YoY rise in dispatches to 547 GWh (HUCB and KAPCO) compared to 300 GWh during the same period last year.
- HUBC: During 2QFY21 the company posted a profit after tax (PAT) of PKR 8,198mn (EPS: PKR 6.32), up by 49% YoY compared to PKR 5,484mn (EPS: PKR 4.23) during 2QFY20. This takes 1HFY21 PAT to PKR 16,342mn (EPS: PKR 12.60) compared with PAT of PKR 11,052mn (EPS: PKR 8.52) during same period last year. The rise in earnings was due to recognition of share of profit from China Power Hub Generation Company (CPHGC) along with 6% YoY PKR deprecation and lower finance cost. During 2QFY21, net sales witnessed an increase of 4% YoY to PKR 10,997mn due to a 12% YoY increase in dispatches to 162 GWh (Hub Plant: 0GWh, Narowal Plant: 33GWh, 7% Load Factor; Laraib: 129GWh, 70% Load Factor). During 1HFY21, sales also increased by 9% YoY, due to higher dispatches compared with last year. During 2QFY21, gross margins of the company increased by 4pps YoY to 70%. The rise in margins is mainly attributable 6% YoY PKR depreciation during 2QFY21.During 2QFY21, the company recognized share of profit from CPHGC of PKR 4,123mn (PKR 3.18/share), up by 26% YoY mainly due to 6% YoY PKR depreciation. Finance costs decreased by 43% YoY to PKR 1,827mn. The decline in finance costs was led by lower interest rates. The company also announced a cash dividend of PKR 3.00/share taking 1HFY21 payout to PKR 7.00/share.
- KAPCO: During 2QFY21 the company posted a Profit After Tax (PAT) of PKR 5,296mn (EPS: PKR 6.02), down by 21% YoY compared to PKR 6,694mn (EPS: PKR 7.60) during same period last year. This takes 1HFY21 profitability to PKR 11,498mn (EPS: PKR 13.06) down by 2% compared to PKR 11,727mn (EPS: PKR 13.32) during 1HFY20. During 2QFY21, sales went up by 17% YoY to PKR 10.7bn due to higher dispatches (320 GWh; Load factor 11%). However, RLNG and FO prices remained low compared to same period last year. During 1HFY21, sales went down by 23% due to 13% YoY decline in dispatches to 1,991 GWh vs. 2,277 GWh during same period last year. Gross profit of the company increased by 14% YoY mainly due to 6% YoY PKR depreciation during 2QFY21. During 2QFY21, other income declined by 56% YoY to PKR 3.0bn given lower interest rates and lower overdue receivables, which were down by 4% YoY to PKR 107bn (as of Sep’20). The decline in interest rates and short term borrowings (-27% YoY to PKR 39.8bn as of Sep’20) translated to a dip in the finance cost to PKR 735mn during 2QFY21 (-70% YoY).

Exhibit: Power Sector Profitability

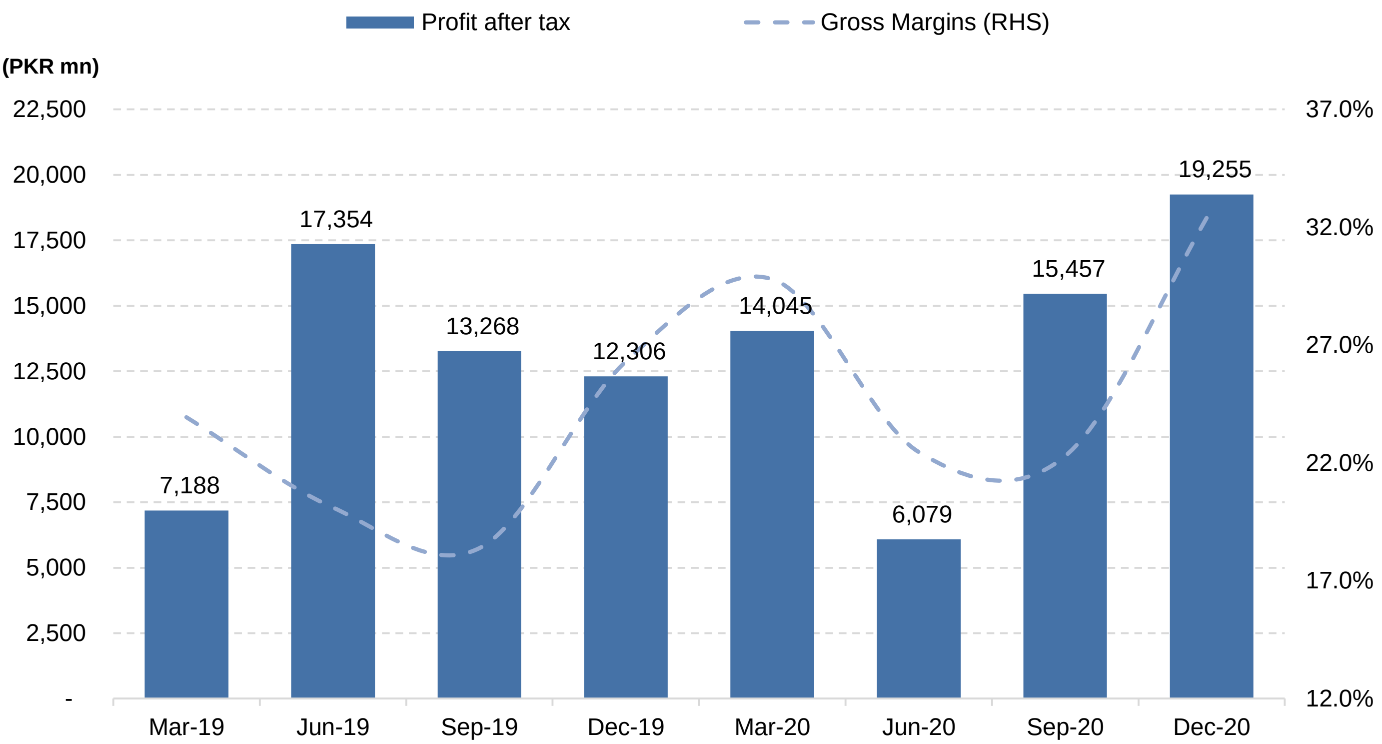
PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
KEL	6,872	2,795	146%	5,761	129	4382%	1,111	418%
HUBC*	16,342	11,052	48%	8,198	5,484	49%	8,144	1%
KAPCO	11,498	11,727	-2%	5,296	6,694	-21%	6,202	-15%
Total^	**34,711**	**25,574**	**36%**	**19,255**	**12,306**	**56%**	**15,457**	**25%**

Source (s): Company Financials, AHL Research, *Consolidated, ^ Ex. SPWL

Power Generation and Distribution

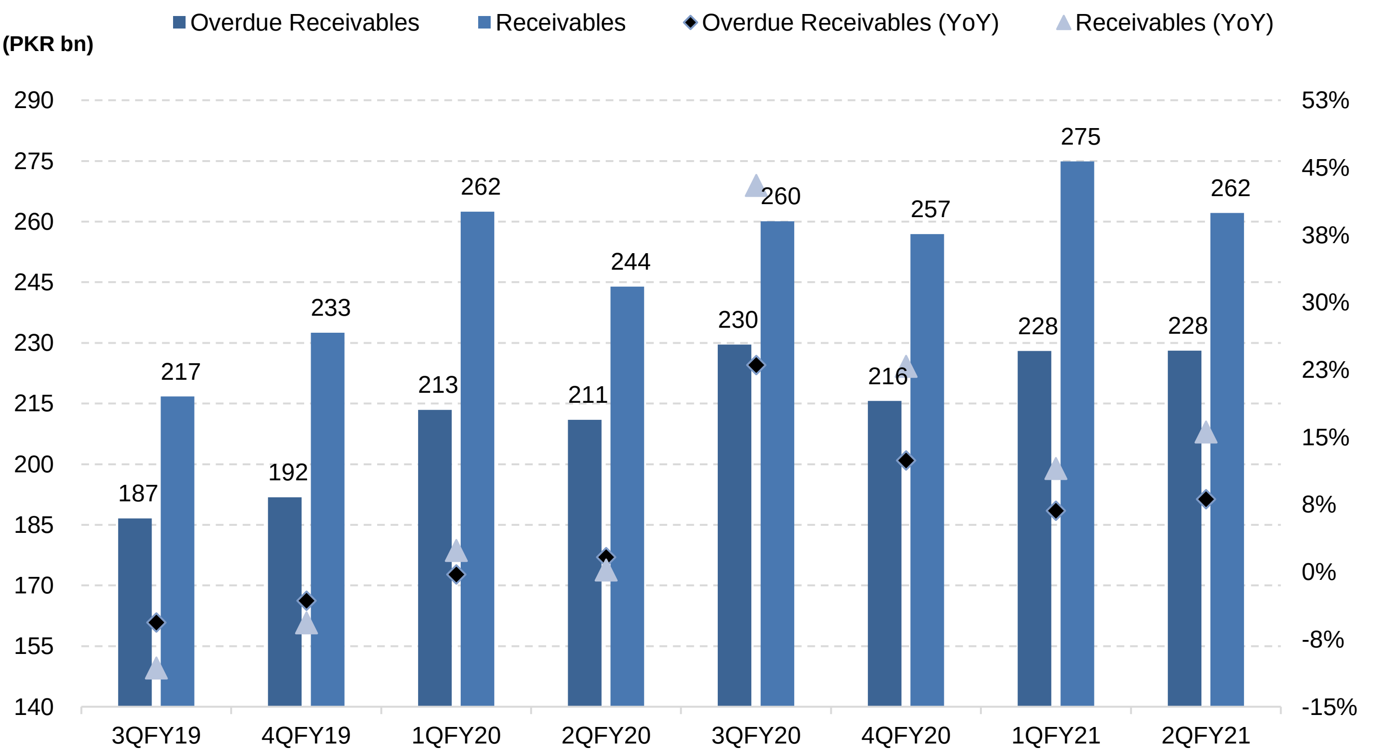
Profitability jumped up by 56% YoY during 2QFY21

Exhibit: Historical Profitability and GMs of Power Sector



Source (s): Company Financials, AHL Research

Exhibit: AHL Power Universe: Receivables Trend

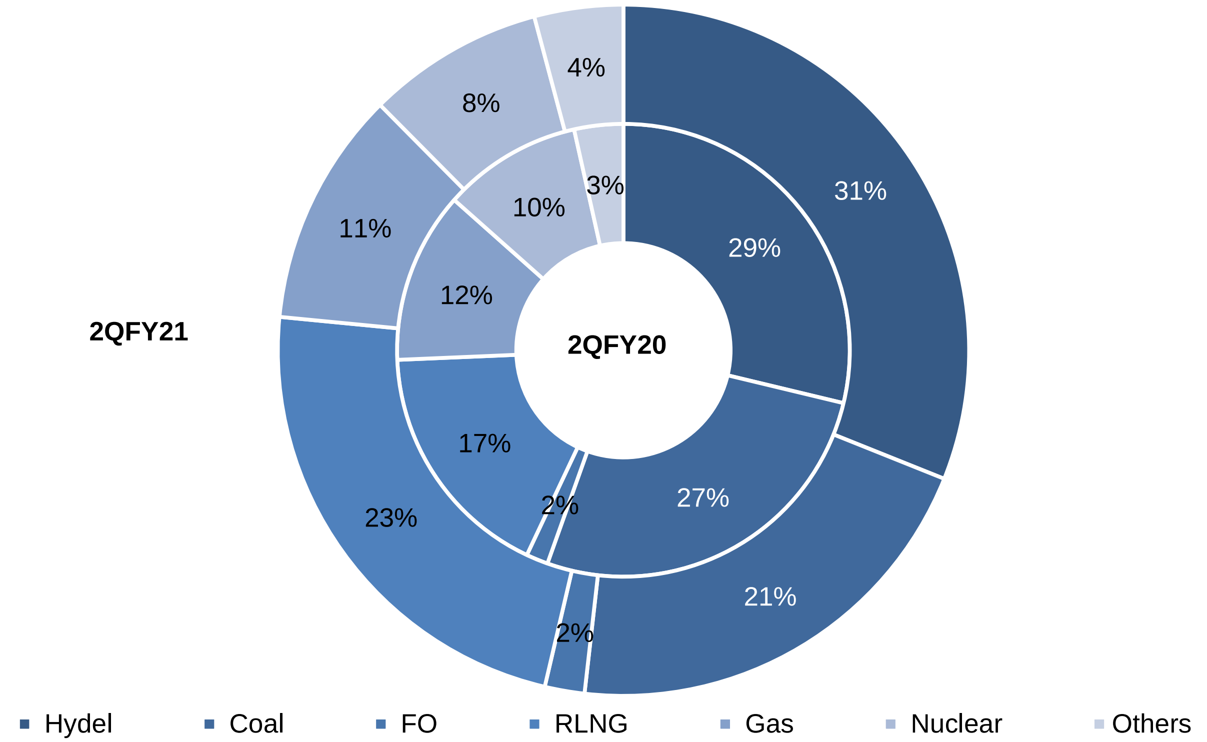


Source (s): Company Financials, AHL Research

Power Generation and Distribution

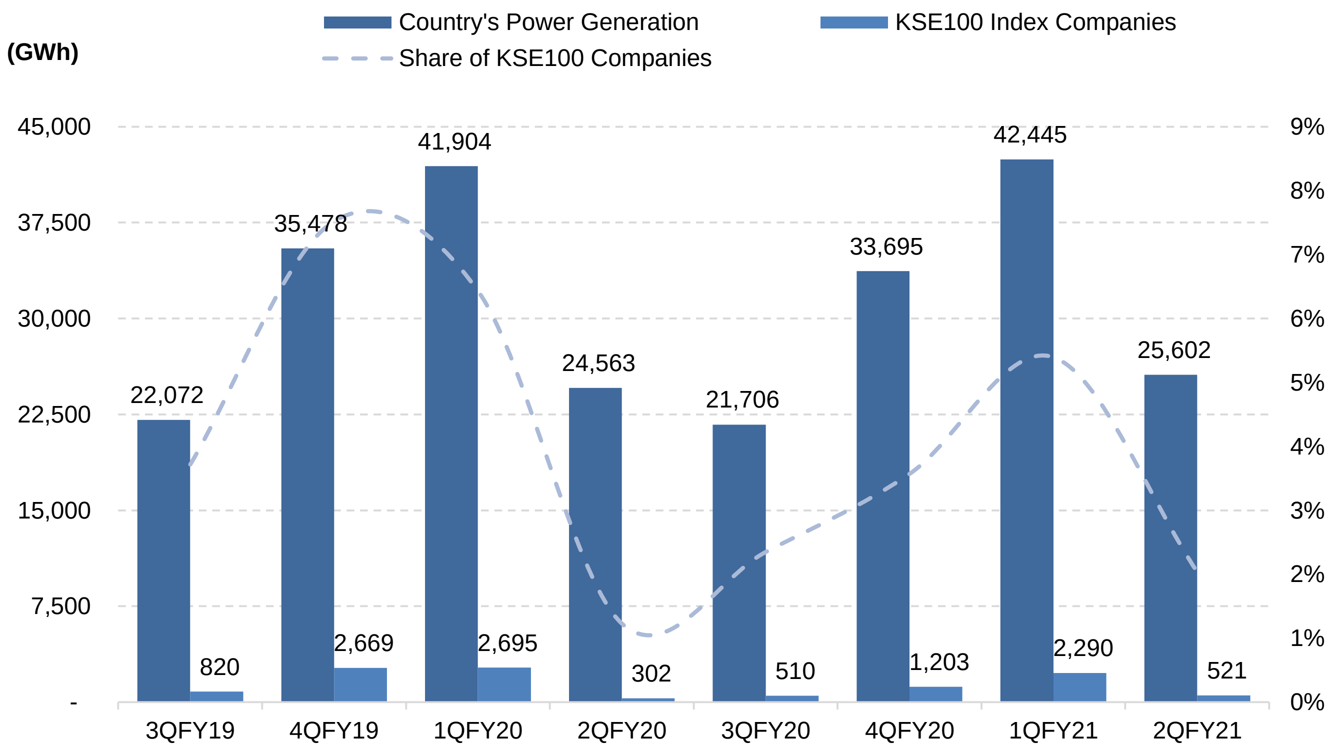
Proftitability jumped up by 56% YoY during 2QFY21

Exhibit: Generation Mix



Source (s): NEPRA, AHL Research

Exhibit: Share of KSE100 Power Companies in Country's Generation



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

Shifting Orders to Pakistan Led to Full Capacity Utilization

- Despite second wave of coronavirus which was a major challenge for the world economy, textile companies managed to increase their topline in the quarter under review as i) major competitors (India) faced the brunt of the pandemic which saw shifting of orders to Pakistan, ii) Buyers reduced their reliance on China and as a result, renowned new players purchased products from Pakistan's textile companies, iii) Cheap labour and stable currency attracted new buyers. As a result, full recovery in export markets enabled higher capacity utilization for most of the companies. Consequently, listed textile companies recorded the highest ever quarterly sales of PKR 88.2bn compared to PKR 74.5bn in the same period last year.
- Topline of the listed textile entities increased by 21% YoY to PKR 171bn in 1HFY21 due to reopening of economic activity and glut of demand for value and non-value added textile products. Meanwhile, bottom-line witnessed double digit growth of 45% YoY to PKR 11,629mn during 1HFY21 compared to earnings of PKR 8,009mn in the same period last year.
- NML remained an underperformer as its profitability dropped by 15% YoY and 13% QoQ to PKR 827mn during 2QFY21 compared to PKR 968mn in same period last year. Topline of the company remained stable on a yearly basis while witnessing a growth on quarterly basis by 7% to PKR 17.2bn in 2QFY21. The decline in profitability is attributable to lower other income given absence on dividend from subsidiary and associated companies.
- ILP posted a profit after tax of PKR 1,522mn (EPS: PKR 1.75), up by 67% YoY and 10% QoQ, compared to PKR 912mn in 2QFY20 and PKR 1,382mn in 1QFY21, respectively. Net sales of the company increased by 35% YoY during 2QFY21 to PKR 13.4bn due to i) hosiery utilization at 100% post revival of economic activity, ii) increase in utilization of the denim plant given addition of new customers, and iii) addition of new machineries in its hosiery division. Gross margins settled at 25.1%, up by 131bps compared to 23.8% in 2QFY20 on account of better economies of scale, higher final product prices and addition of state of the art machinery bringing new efficiencies to the plant.
- NCL reported a massive profitability growth by 150% YoY to PKR 874mn in 2QFY21 due to aforementioned reasons.
- FML's profitability dropped by 1% YoY and 44% QoQ in 2QFY21 due to massive surge in raw material prices (Cotton) along with appreciation of PKR which translated to lower gross margins amid exchange loss.

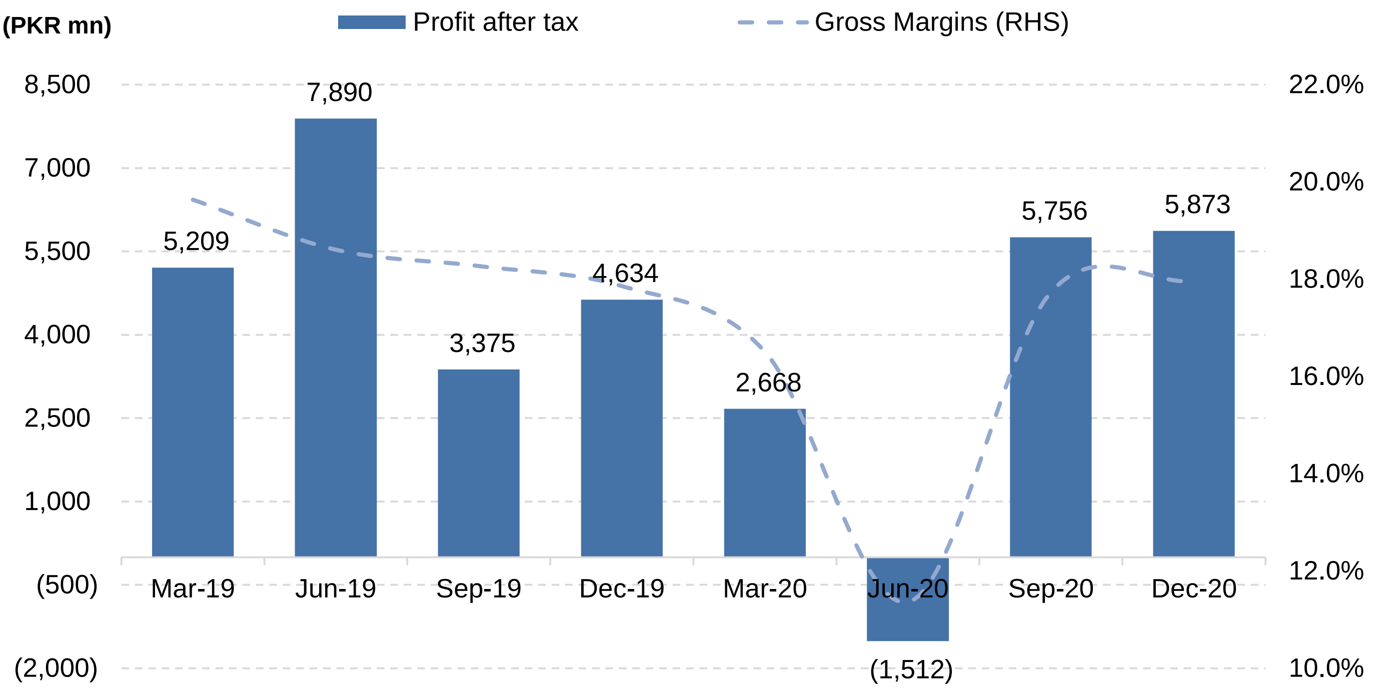
Exhibit: Textile Sector Profitability

PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
ANL	303	313	-3%	84	182	-54%	219	-62%
FML	2,518	1,654	52%	903	910	-1%	1,615	-44%
GATM	1,766	1,069	65%	1,167	705	66%	599	95%
ILP	2,904	1,531	90%	1,522	912	67%	1,382	10%
KTML	1,009	1,029	-2%	496	609	-19%	513	-3%
NCL	1,354	522	159%	874	349	150%	480	82%
NML	1,774	1,891	-6%	827	968	-15%	946	-13%
GADT	847	819	3%	655	453	44%	192	241%
STJT	81	63	27%	37	39	-6%	44	-15%
Total	**12,556**	**8,892**	**41%**	**6,565**	**5,127**	**28%**	**5,991**	**10%**

Source (s): Company Financial, AHL Research

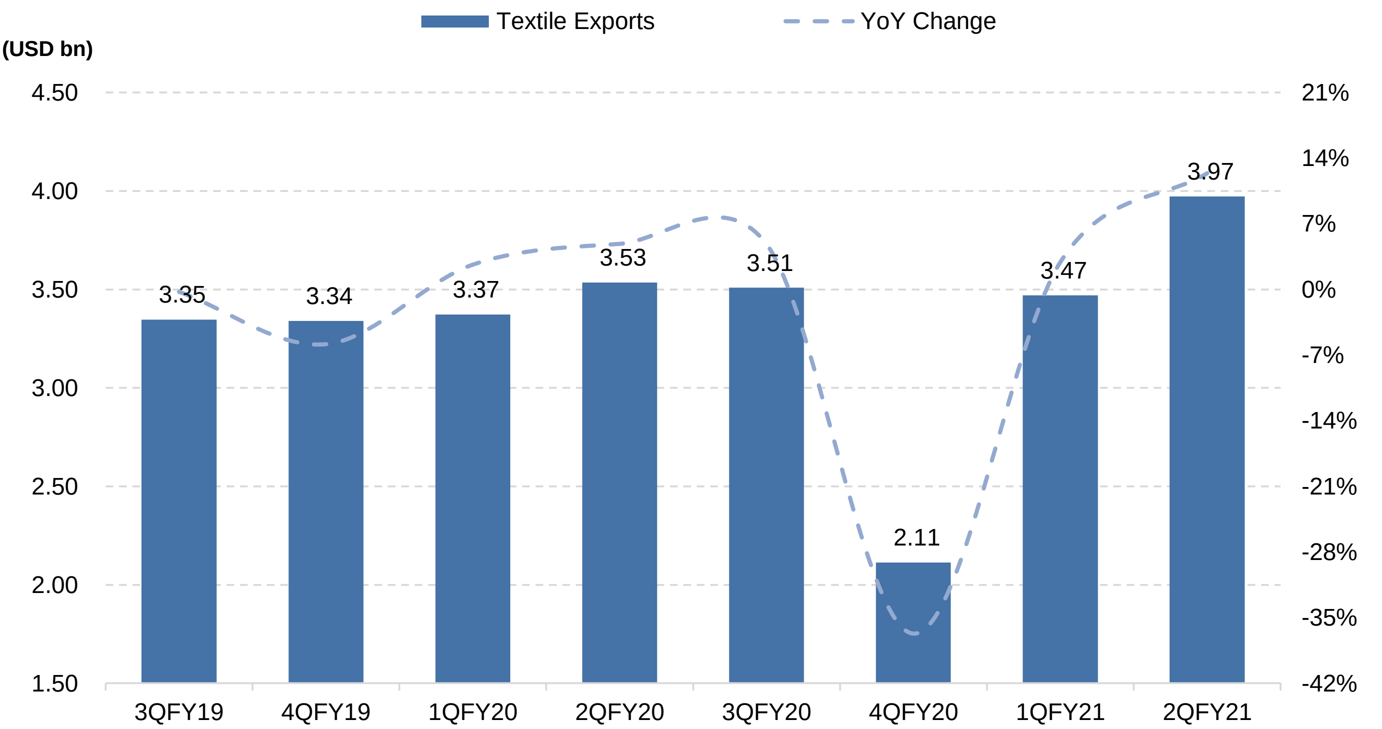
Shifting Orders to Pakistan Led to Full Capacity Utilization

Exhibit: Sector Profitability



Source (s): Company Financials, AHL Research

Exhibit: Textile Exports were up by 12% YoY during 2QFY21

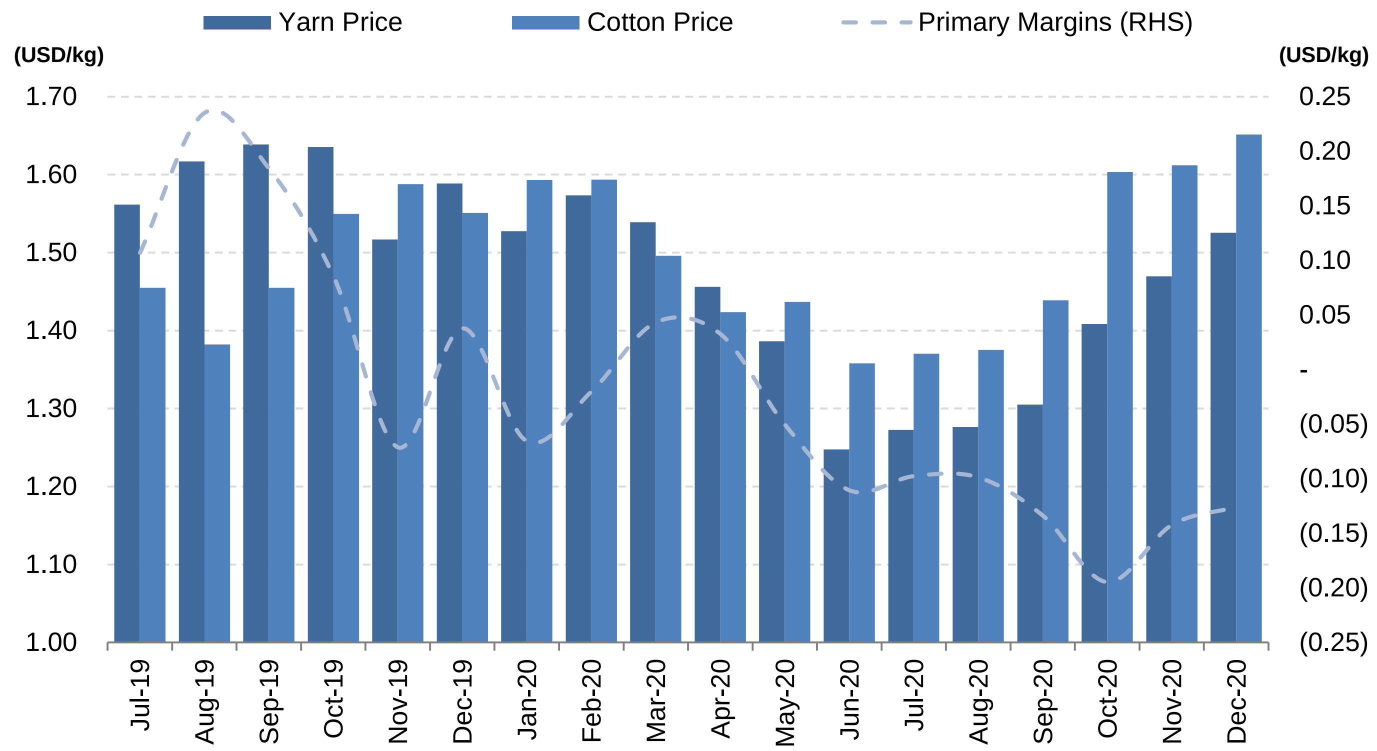


Source (s): PBS, AHL Research

Textile

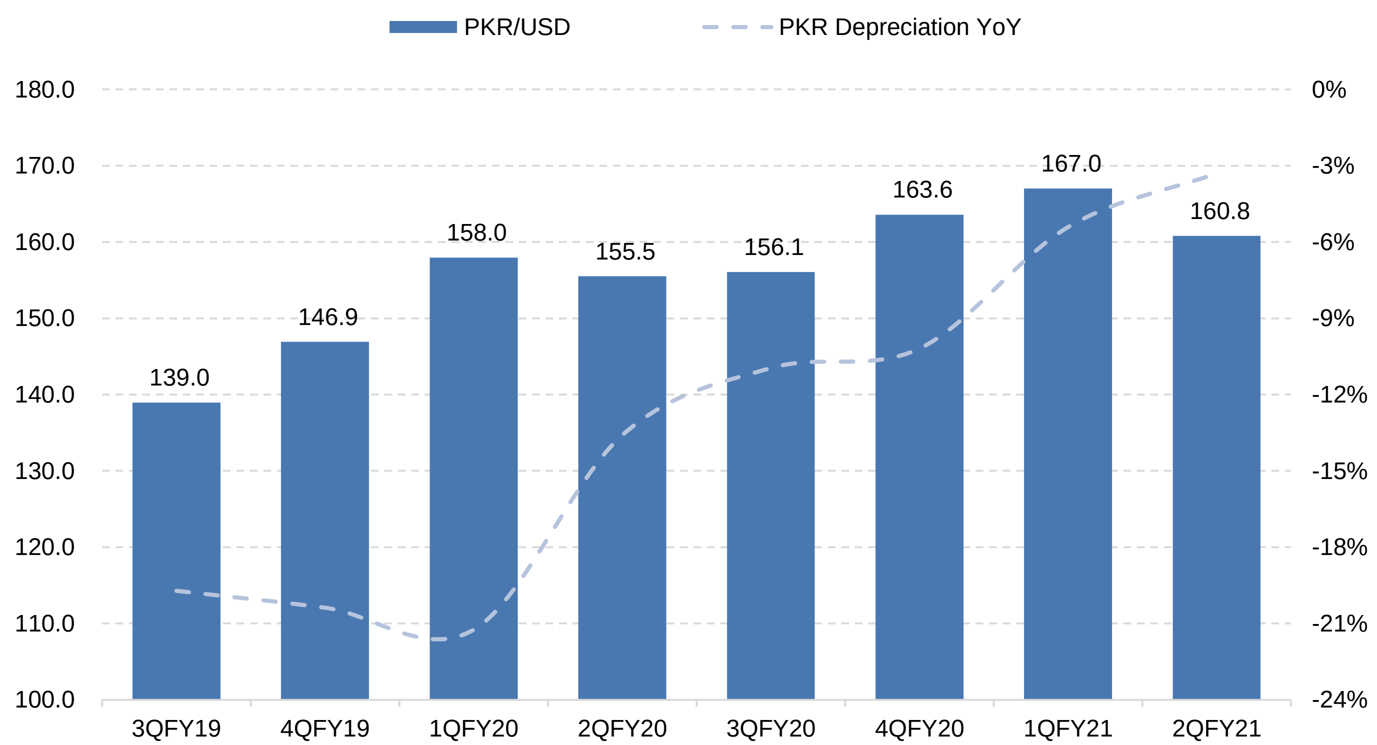
Shifting Orders to Pakistan Led to Full Capacity Utilization

Exhibit: Primary Yarn Margins



Source (s): PBS, AHL Research

Exhibit: 3% YoY PKR depreciation during 2QFY21



Source (s): SBP, AHL Research

Oil & Gas Marketing Companies

Net Profit of 2QFY21 increased by 137% YoY

- Oil and Gas Marketing Companies posted remarkable profit of PKR 14.7bn in 1HFY21, up by 85% YoY compared to PKR 8.0bn in same period last year. On a quarterly basis, bottom-line witnessed triple digit growth of 137% YoY during 2QFY21 to PKR 6.3bn. The significant jump in profitability is attributable to i) rebound in international oil prices resulting in massive inventory gains, ii) quick economic recovery (improvement in large scale manufacturing and growth in car sales) increasing demand of petroleum products, iii) better agricultural yields resulting in higher sales of HSD, iv) decline in interest rate resulting in lower finance cost and v) strict control on borders to contain supply of illegal or dumped fuel from Iran. However, topline of the sector dropped by 12% YoY to PKR 751bn in 1HFY21 due to lower oil prices compared to same period last year.
- During 1HFY21, PSO reported profit after tax of PKR 9.5bn (EPS: PKR 20.28) compared to profit of PKR 6.4bn (EPS: PKR 13.71) in 1HFY20. Despite increase in overall sales volumes by 11% YoY (FO, HSD and MS volumes increased by 26%, 18% and 12% YoY), topline of the company settled at PKR 567bn in 1HFY21, down by 12% YoY on account of lower average selling prices of petroleum products. On the other hand, company posted a gross profit of PKR 20.5bn compared to gross profit of PKR 17.7bn in 1HFY20 amid change in ex-refinery prices that resulted in inventory gains of PKR ~1.8bn in 1HFY21 compared to inventory loss of PKR 0.8bn in same period last year along with surge in sales volumes. On a quarterly basis, PSO managed to increase its profitability by 51% YoY to PKR 4.4bn in 2QFY21.
- Despite volumetric decline of 3% YoY in 1HFY21, APL managed to post profit of PKR 2,146mn on account of better inventory management which resulted in inventory gains in the period under review. Gross margins of the company improved by 269bps YoY to 5.29% in 1HFY21 compared to 2.60% in 1HFY20. Improvement in gross margins can be attributable to higher sales of furnace oil which is a high margin product.
- Similarly, SHEL posted a gigantic profit of PKR 3.1bn in 1HFY21 due to massive inventory gains and lower financial charges in the period under review. During 2QFY21, company posted profit of PKR 1.2bn due to higher sales volumes and inventory gains compared to loss of PKR 0.6bn in same period last year.

Exhibit: Oil and Gas Marketing Sector Profitability

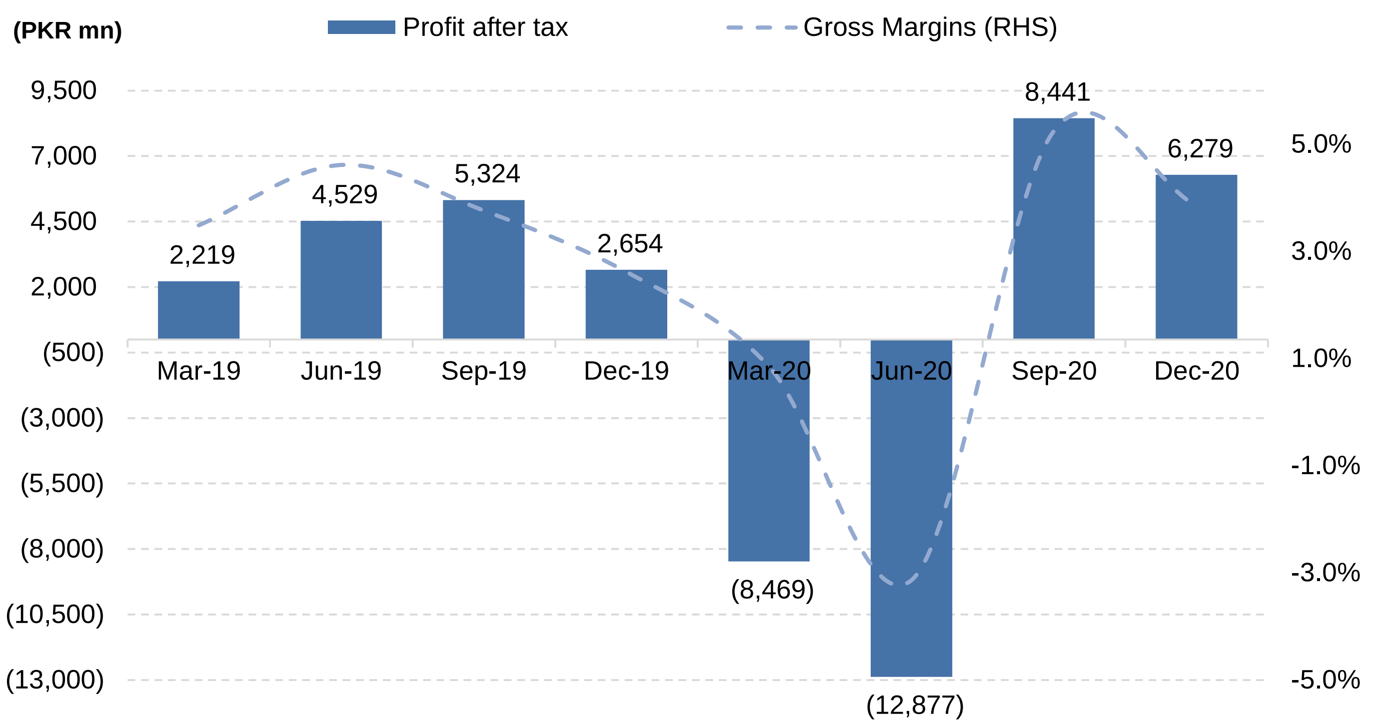
PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
APL	2,146	1,581	36%	661	355	86%	1,485	-56%
PSO	9,522	6,435	48%	4,378	2,906	51%	5,144	-15%
SHEL	3,052	(38)	nm	1,240	(608)	nm	1,812	-32%
Total*	**14,720**	**7,977**	**85%**	**6,279**	**2,654**	**137%**	**8,441**	**-26%**

Source (s): Company Financials, AHL Research, *Ex. HASCOL

Oil & Gas Marketing Companies

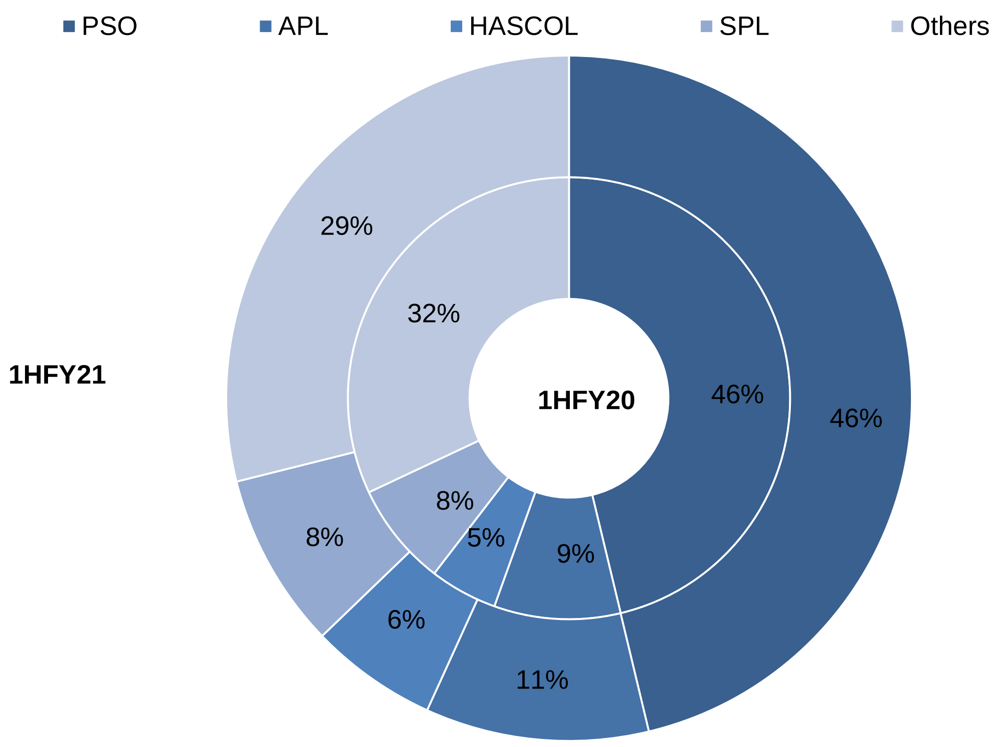
Net Profit of 2QFY21 increased by 137% YoY

Exhibit: Historical Profitability and GMs of Oil and Gas Marketing Sector



Source (s): Company Financials, AHL Research

Exhibit: Market Share of Listed OMCs

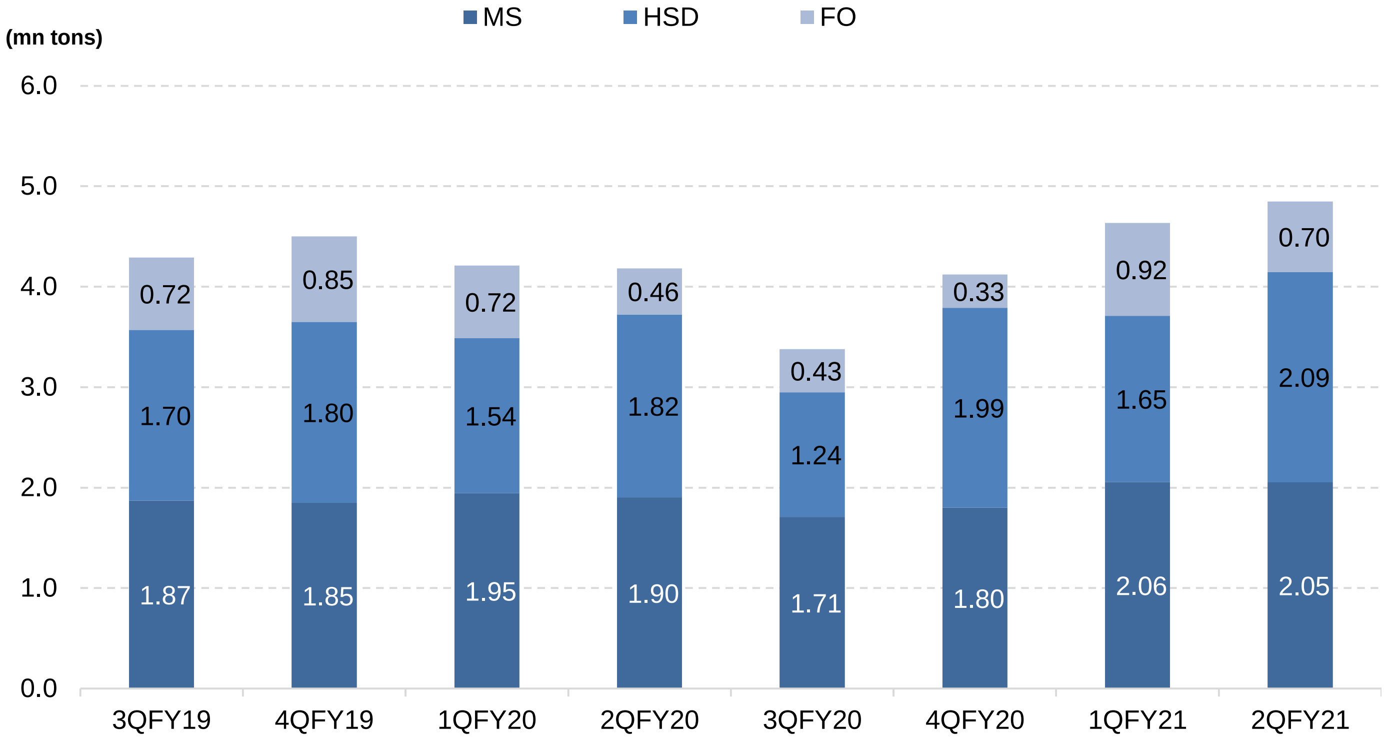


Source (s): OGRA, AHL Research

Oil & Gas Marketing Companies

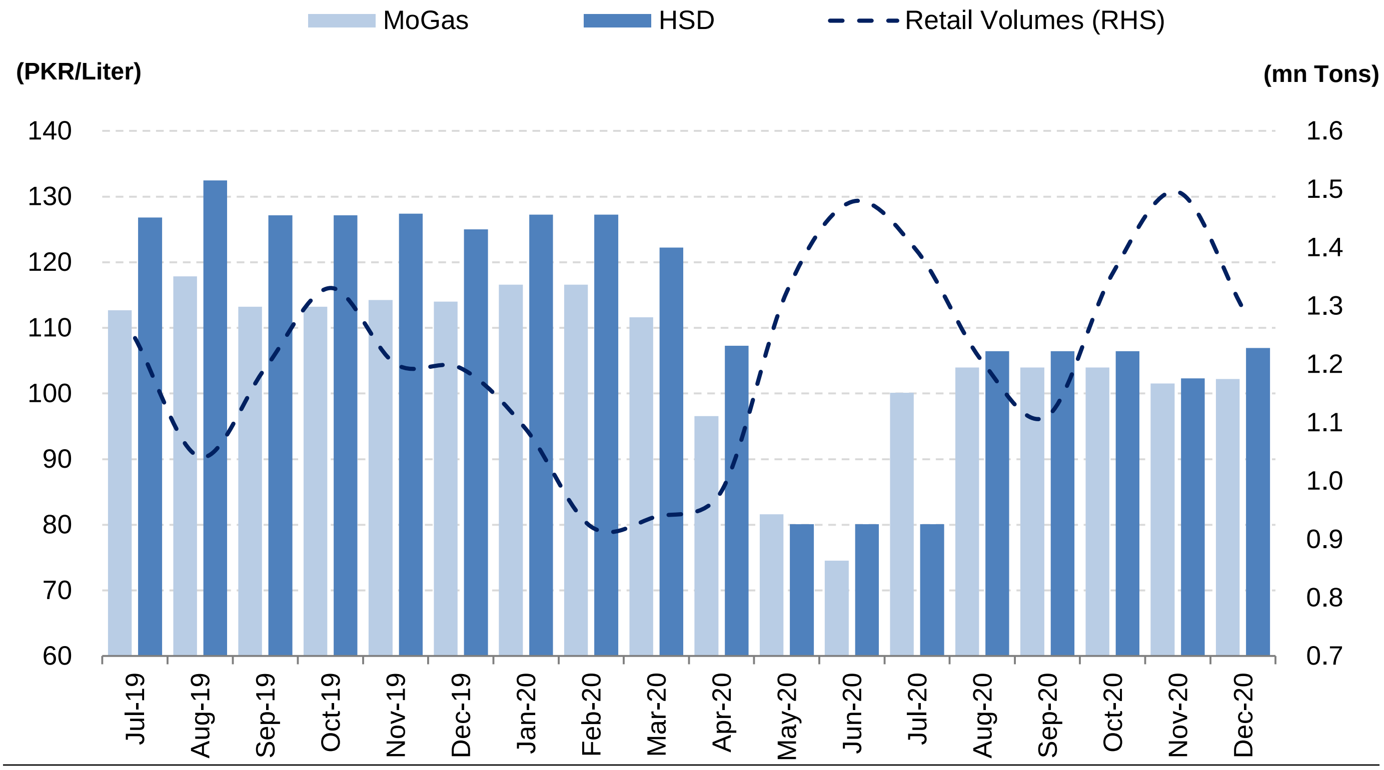
Net Profit of 2QFY21 increased by 137% YoY

Exhibit: Industry Quarterly Volumes



Source (s): OCAC, AHL Research,

Exhibit: Monthly Volume and Price Trend



Source (s): OGRA, AHL Research

Automobile

Volumetric Growth Keeping Profitability Up

- Automobile sector posted outstanding financial results during 1HFY21 as their net profitability doubled on year on year basis due to i) lower auto financing rate which is directly proportional to auto sales growth as auto financing number soared from PKR 211bn to PKR 257bn in 1HFY21, ii) reduction in Covid-19 cases in Pakistan which improved overall economic situation and resulted in earlier then expected revival in activity, iii) decline in interest rates resulting in lower financial charges and iv) Appreciation of PKR against regional currencies improving gross margins of the listed companies. As a result, automobile sales volumes (including LCVs and 4*4) increased by 18% YoY to 79,954 units compared to 67,724 units in 1HFY20. Likewise, tractors sales increased by 44% YoY during 1HFY21 to 21,736 units compared to 15,109 units in same period last year.
- Topline of the sector increased by 63% YoY to PKR 205bn during 1HFY21 compared to PKR 126bn in SPLY. Sales revenue increased due to i) rising demand on the back of improving purchasing power parity, ii) backlog of previous orders, and iii) higher prices of vehicles compared to same period last year. Likewise, sales volume of two wheelers (ATLH) also increased by 20% YoY to 618,040 units due to aforementioned reason.
- Profitability of the Automobile sector (Assemblers & Parts) increased drastically due to improvement in margins of all listed players given decline in prices of raw material, economies of scale and currency appreciation against green back resulted in surge in gross margins.
- INDU's bottom-line recorded a significant jump of 108% YoY to PKR 4,801mn in 1HFY21 vs PKR 2,304mn in preceding period last year. The growth in profitability is on account of increase in sales volumes by 84% YoY to 26,139 units in 1HFY21 compared to 14,175 units in 1HFY20. Gross margins settled at 7.55%, down by 126bps YoY amid change in sales mix from high margin Toyota Corolla to low margin Toyota Yaris.
- MTL's earnings settled at PKR 2,638mn, up by 3.3x YoY and 3.3x QoQ. During 1HFY21, MTL outperformed as tractor volumes surged by 68% YoY to 15,538 units due to improvement in farmers yield which bodes well for tractor industry. On the other hand, gross margins improved amid economies of scale and change in sales mix.
- HCAR's topline increased by 77% YoY to PKR 38bn during 1HFY21 compared to PKR 22bn in same period last year due to significant increase in sales volumes by 68% YoY to 13,666 units vs 8,146 units in 1HFY20. Bottom-line of the company skyrocketed on account of massive decline in finance cost given lower interest rate and retirement of borrowings.

Exhibit: Auto Sector Profitability

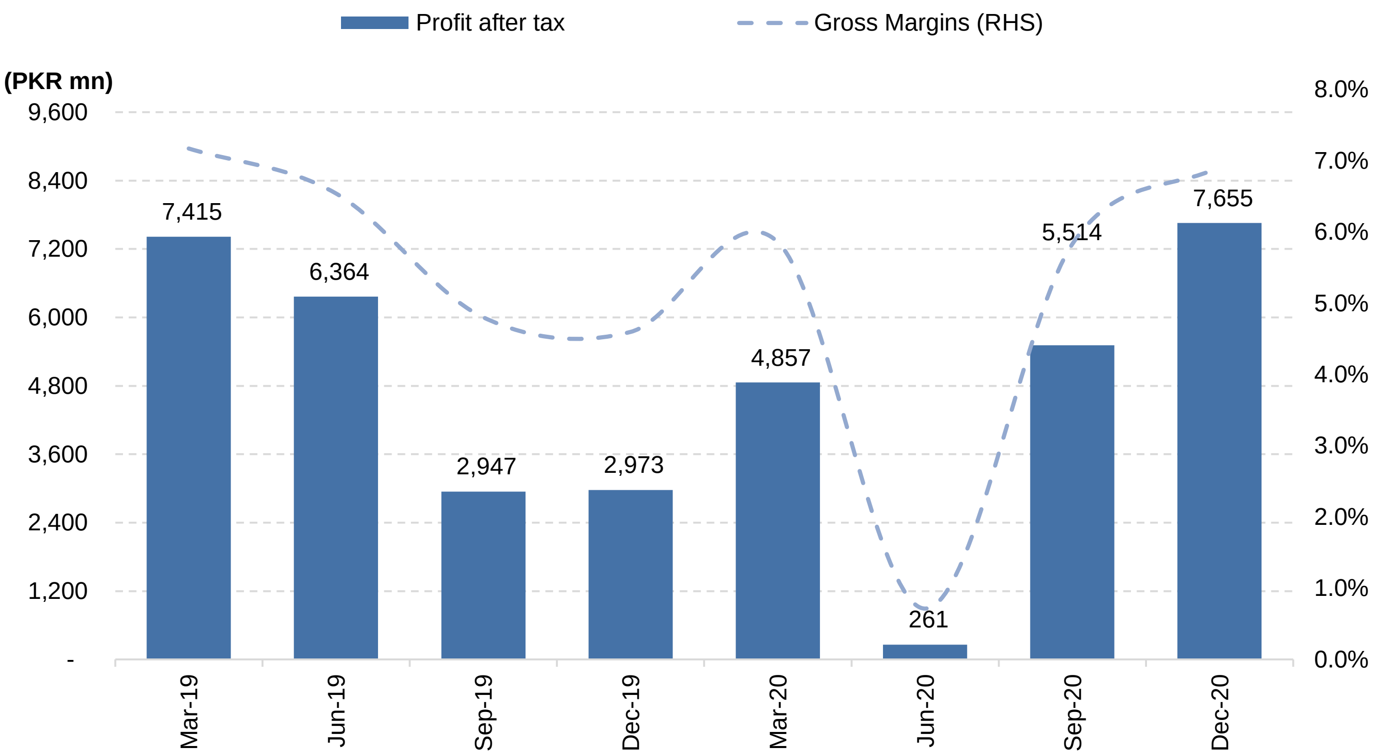
PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
ATLH	2,291	1,401	64%	1,288	830	55%	1,003	28%
HCAR	1,409	468	201%	752	(41)	nm	657	14%
INDU	4,801	2,304	108%	2,956	986	200%	1,845	60%
MTL	2,638	808	226%	1,503	452	232%	1,135	32%
AGIL	438	(2)	nm	281	0.7	384x	157	79%
THALL	1,592	940	69%	875	746	17%	717	22%
Total*	**13,169**	**5,920**	**122%**	**7,655**	**2,973**	**157.5%**	**5,514**	**38.8%**

Source (s): Company Financial, AHL Research, *Ex. PSMC

Automobile

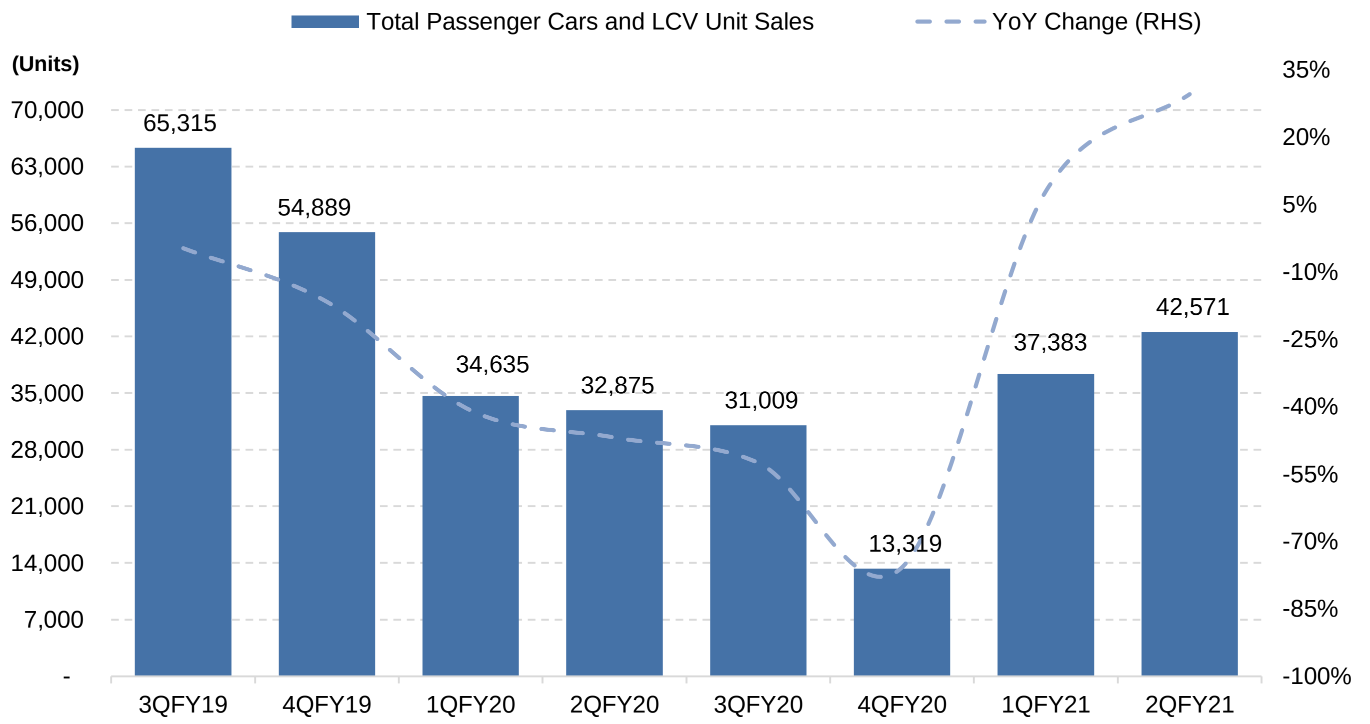
Volumetric Growth Keeping Profitability Up

Exhibit: Historical Profitability and GMs of Auto Sector



Source (s): Company Financials, AHL Research

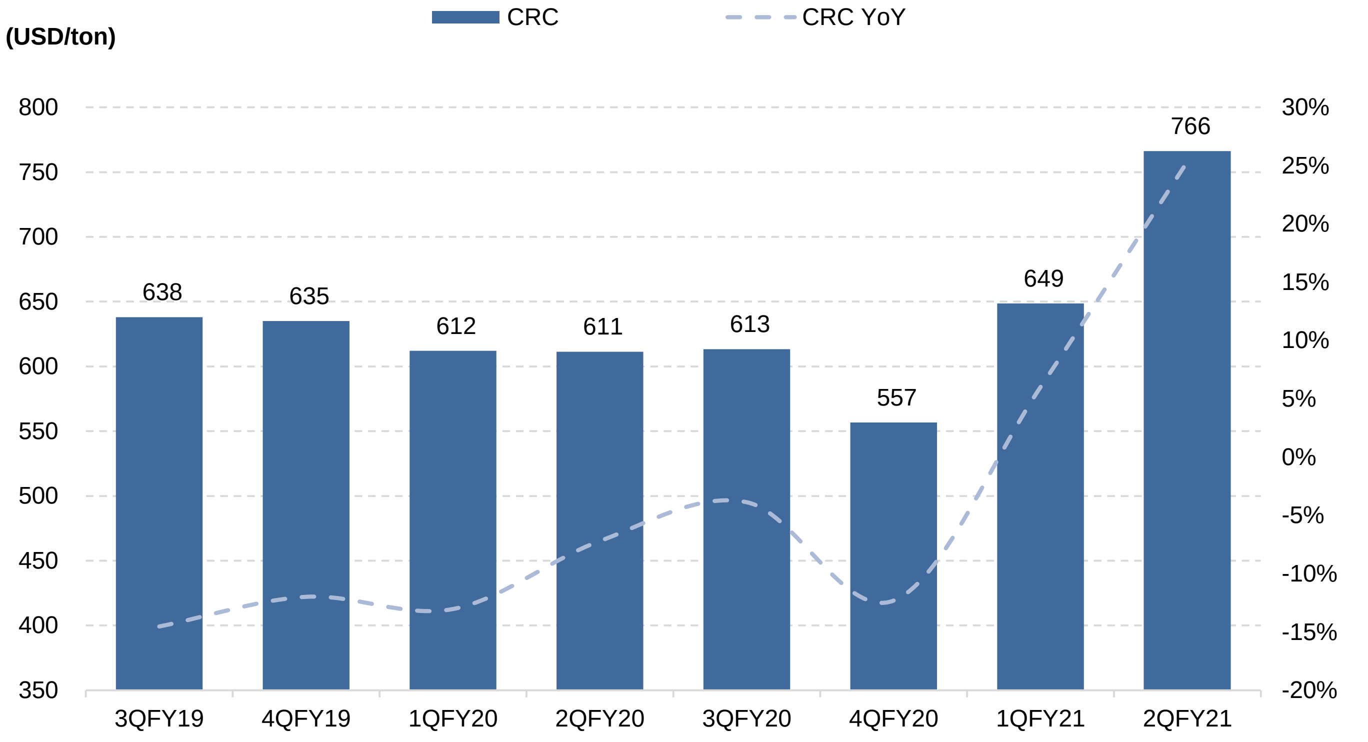
Exhibit: Auto Sales up by 29% YoY during 2QFY21



Source (s): PAMA, AHL Research

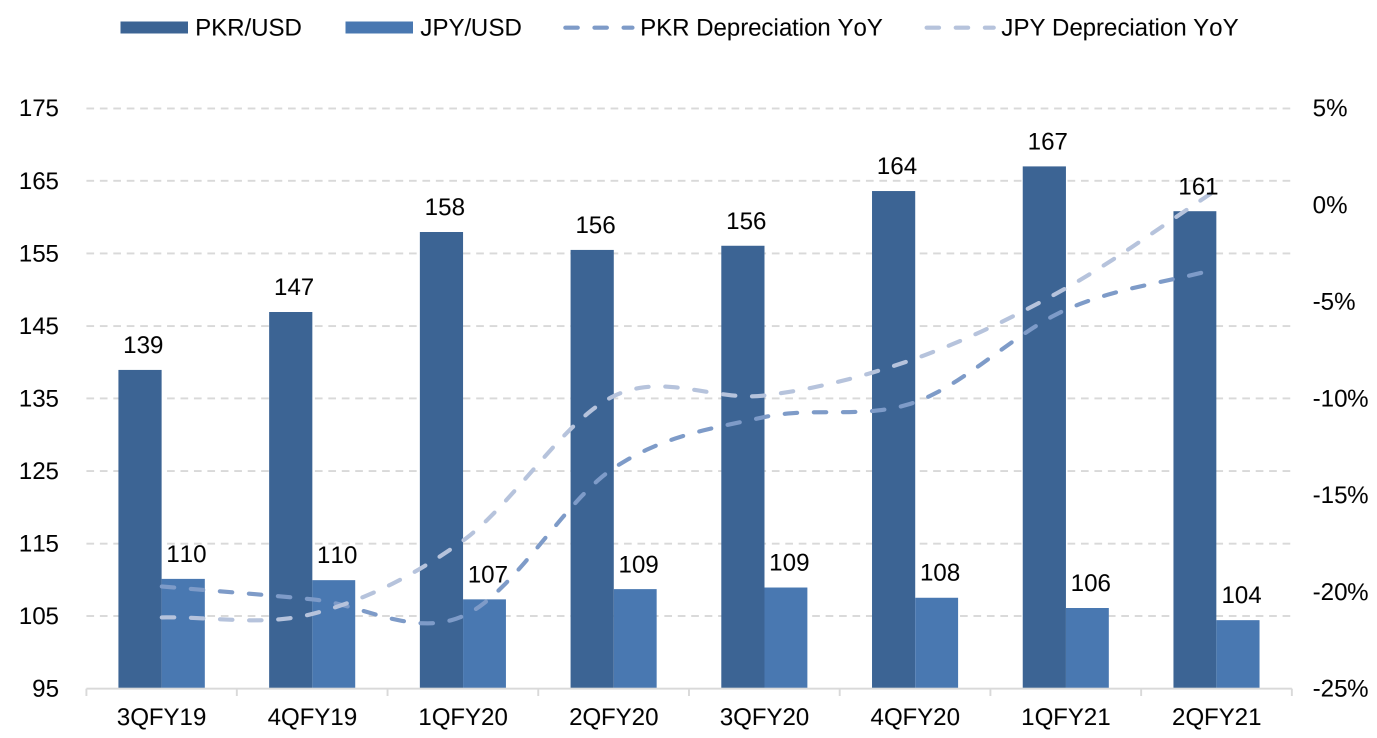
Automobile
Volumetric Growth Keeping Profitability Up

Exhibit: CRC Prices went up by 25% YoY during 2QFY21



Source (s): Bloomberg, AHL Research,

Exhibit: 3% YoY PKR depreciation witnessed in 2QFY21



Source (s): Bloomberg, AHL Research

Chemicals

Better Margins and Lower Finance Cost Pushed up Profitability

- Chemical sector's profitability jumped up by 104% YoY during 2QFY21. Rise in profitability is triggered by better margins coupled with lower finance cost amid decline in interest rates.
- LOTCHEM: During 4QCY20 the company posted a profit after tax (PAT) of PKR 1,087mn (EPS: PKR 0.72), up by 73% YoY compared to PKR 628mn (EPS: PKR 0.41) during SPLY. On a QoQ basis, earnings went up by 18%. This took the CY20 earnings to PKR 2,125mn (EPS: PKR 1.40) vis-à-vis PKR 5,360mn (EPS: PKR 3.54) during CY19. Along with the result, the company also announced a cash dividend of PKR 0.75/share. During 4QCY20, net sales went down by 7% YoY to PKR 12.1bn. The decline in sales was due to lower PTA prices, which were down by 27% YoY during 4QCY20. Same trend in sales was witnessed during CY20 (-36% YoY), with lower PTA prices again remaining the primary reason behind this dip. Gross margins of the company increased by 391bps YoY to 13% during 4QCY20. The rise in margins is witnessed on the back of re-measurement gain on provision for GIDC along with 3% YoY PKR depreciation. However, international PTA margins went down by 17% YoY to an average of USD 92/ton. Other income went up by 23% YoY to PKR 526mn during 4QCY20 given higher levels of financial assets. However, interest rates were lower compared to 4QCY19.
- Profitability of COLG went up by 16% YoY led by a 253bps YoY rise in gross margins to 30%. However, finance costs increased by 29% YoY to PKR 27mn due to higher level of borrowings. Effective taxation of the company remained 33% during 2QFY21 compared with 25% during same period last year.
- ARPL's earnings jumped up by 44% during 2QFY21 mainly due to 338bps YoY rise in gross margins coupled with 71% YoY decline in finance cost.

Exhibit: Chemical Sector Profitability

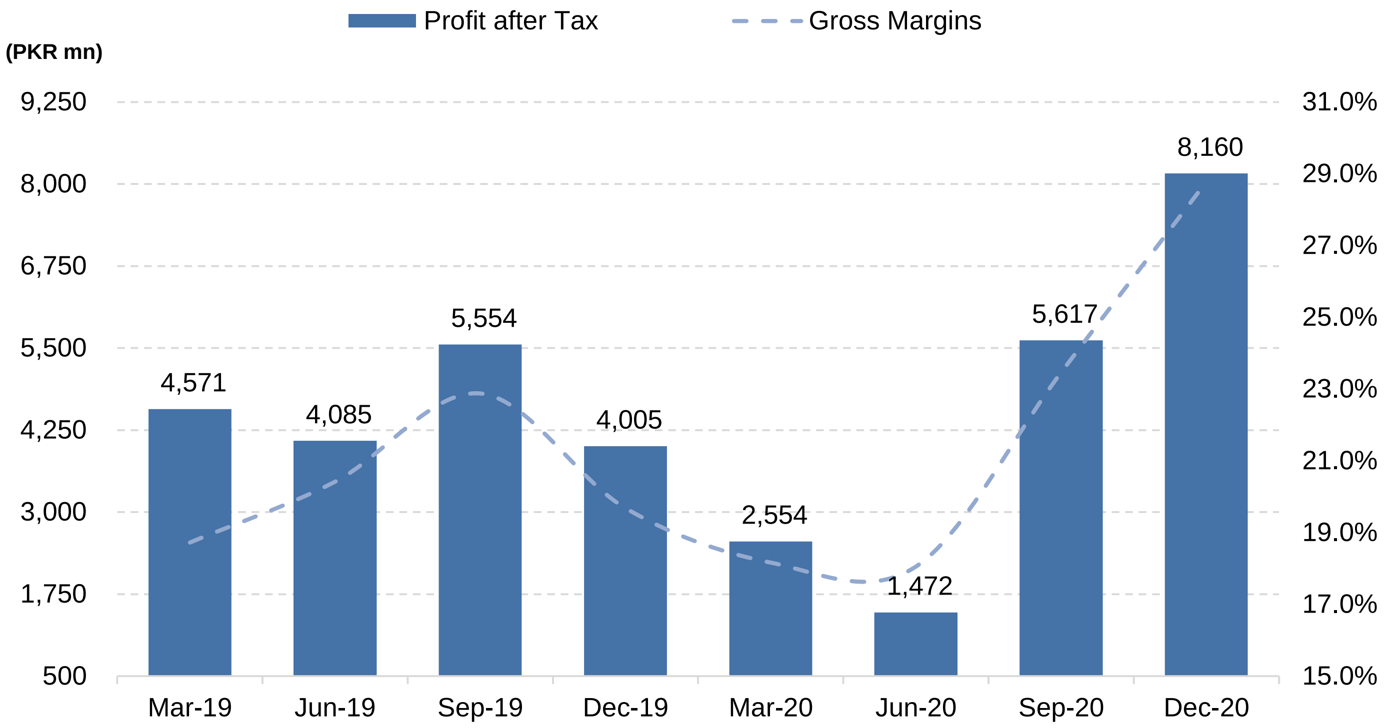
PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
ARPL	866	947	-9%	480	333	44%	386	24%
EPCL	5,508	2,150	156%	3,627	879	313%	1,881	93%
COLG	2,774	2,300	21%	1,333	1,149	16%	1,441	-7%
ICI	2,618	1,852	41%	1,633	1,016	61%	985	66%
LOTCHEM	2,012	2,310	-13%	1,087	628	73%	925	18%
Total	**13,777**	**9,559**	**44%**	**8,160**	**4,005**	**104%**	**5,617**	**45%**

Source (s): Company Financial, AHL Research

Chemicals

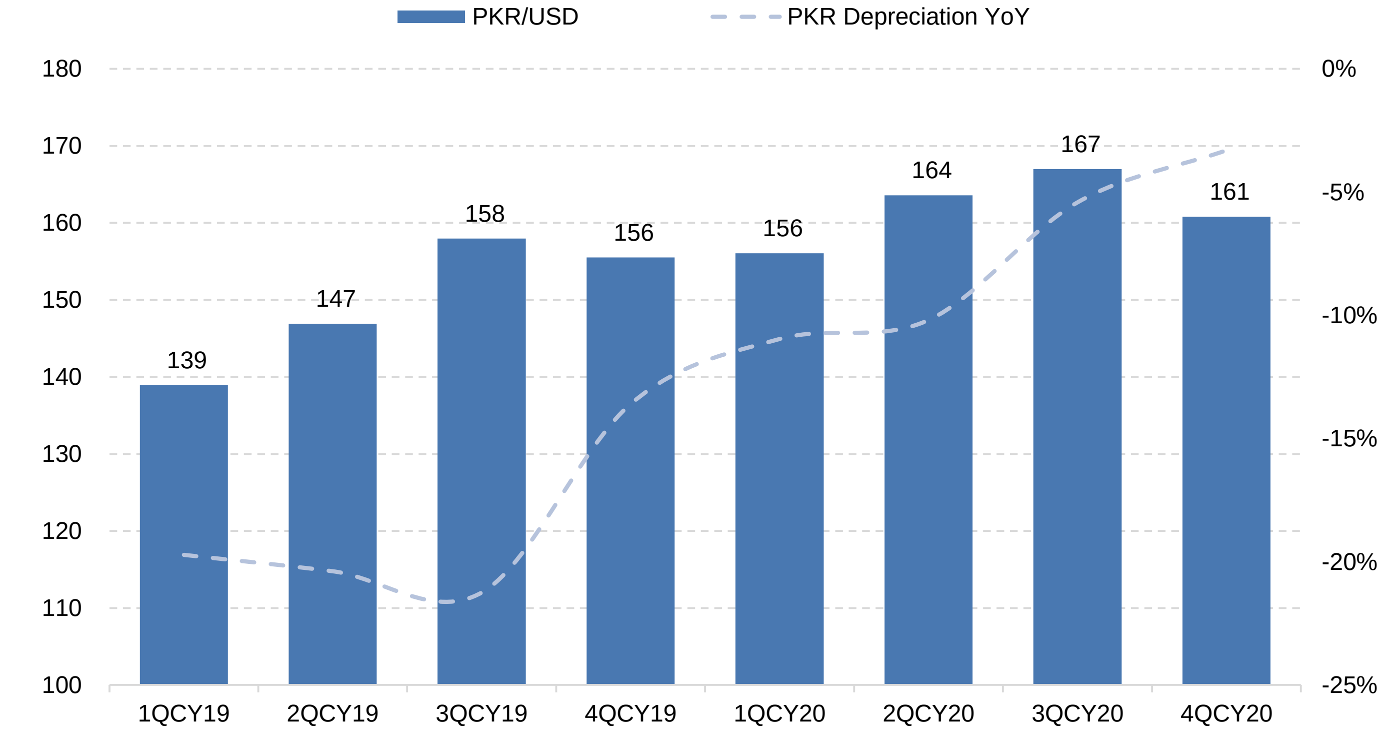
Better Margins and Lower Finance Cost Pushed up Profitability

Exhibit: Historical Profitability and GMs of Chemical Sector



Source (s): Company Financials, AHL Research

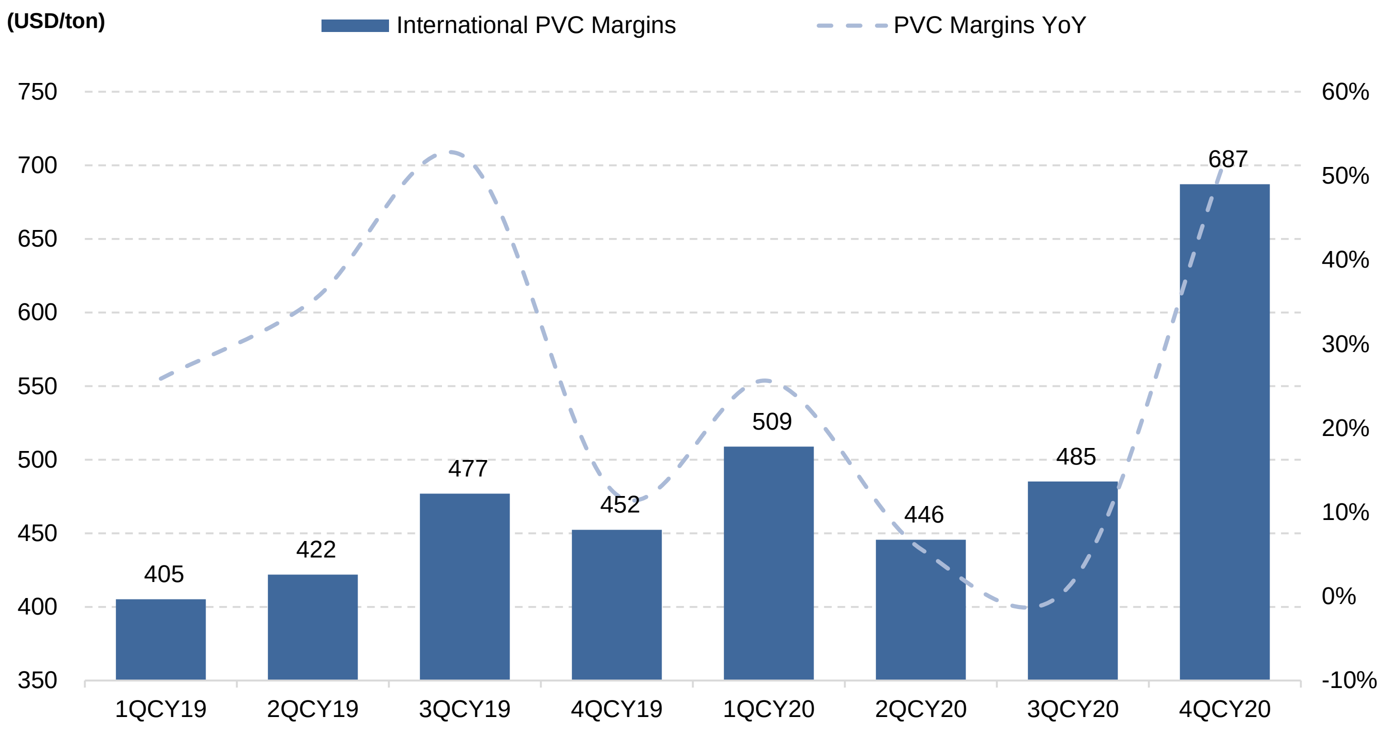
Exhibit: PKR Depreciated 3% YoY during 4QCY20



Source (s): SBP, AHL Research

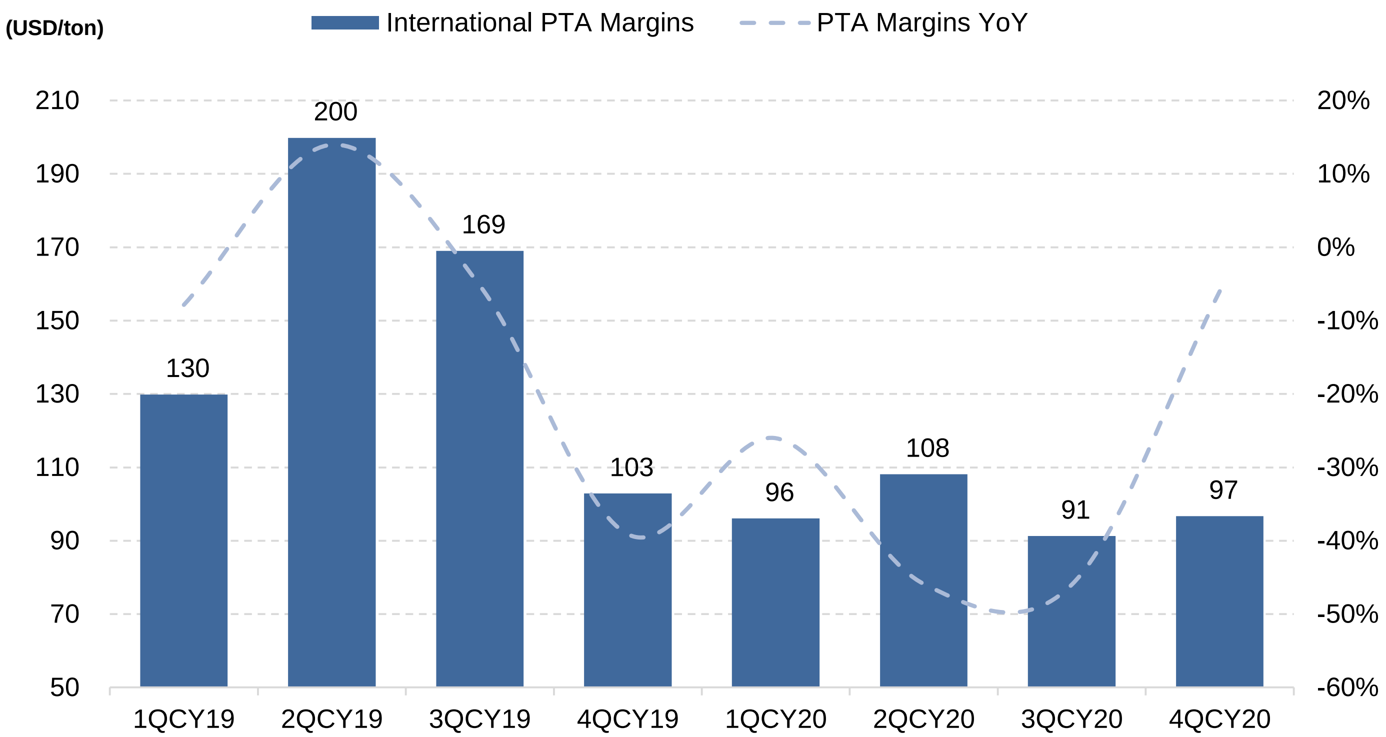
Better Margins and Lower Finance Cost Pushed up Profitability

Exhibit: International PVC margins witnessed an increase of 52% YoY in 4QCY20



Source (s): Bloomberg, AHL Research

Exhibit: International PTA margins witnessed a decline of 6% YoY in 4QCY20



Source (s): Bloomberg, AHL Research

Robust Demand + Higher Prices = Margin Accretion

- Profitability of the domestic engineering (Steel) sector posted a double digit growth of 19.7x in 2QFY21 (from PK257mn to PKR 5,075mn) as pick-up in Automobile demand and construction activity in the wake of economic recovery drove flat steel demand. While augmented prices (amid supply chain disruption) also aided margins.
- ISL's bottom-line arrived at PKR 2,215mn in 2QFY21 (PKR 2,774mn in 1HFY21 at an all-time high), up by 18.8x YoY, attributable to a stunning growth in margins to 20.0% from 7.2% in SPLY. Primary reason behind this was a 29% YoY jump in company topline during the quarter amid strong demand ensuing from the automobile sector, followed by rising construction activity due to low interest rates and construction package announced by PM Khan. In addition, margins were further supported by augmenting international steel prices given global lockdowns which caused major disruption in supply chains, and hence prompted a jump in domestic prices as well (inventory gains booked in 2Q; 11ppts QoQ jump in margins from 8.9% in 1QFY21). While a 74% decline in financial charges to PKR 179mn owed to a significant cut in the SBP's benchmark rate to 7%, also aided bottom-line.
- Consolidated earnings of INIL arrived at PKR 2,860mn during 2QFY21 compared to PKR 139mn in SPLY, depicting a stunning 21x jump YoY. Pertinently, revenue underwent a surge of 41% YoY amid volumetric growth in the local market (augmented demand of CR Tube, Black Pipe and Hollow Structural Section by the industrial and construction sectors) and exports (primarily owed to GI pipe sales to Australia given ease in lockdown). With that, INIL has become a market leader in the domestic PPRC pipes and fittings market. Meanwhile, steel prices at a decade high (disruption in supply chains and recovering Chinese demand) together with improved volumes aided margins to 19.3% vis-à-vis 7.2% in 2QFY20. Bottom-line was further supported by a 5x jump in other income given dividend (PKR 3/share) from subsidiary (ISL).

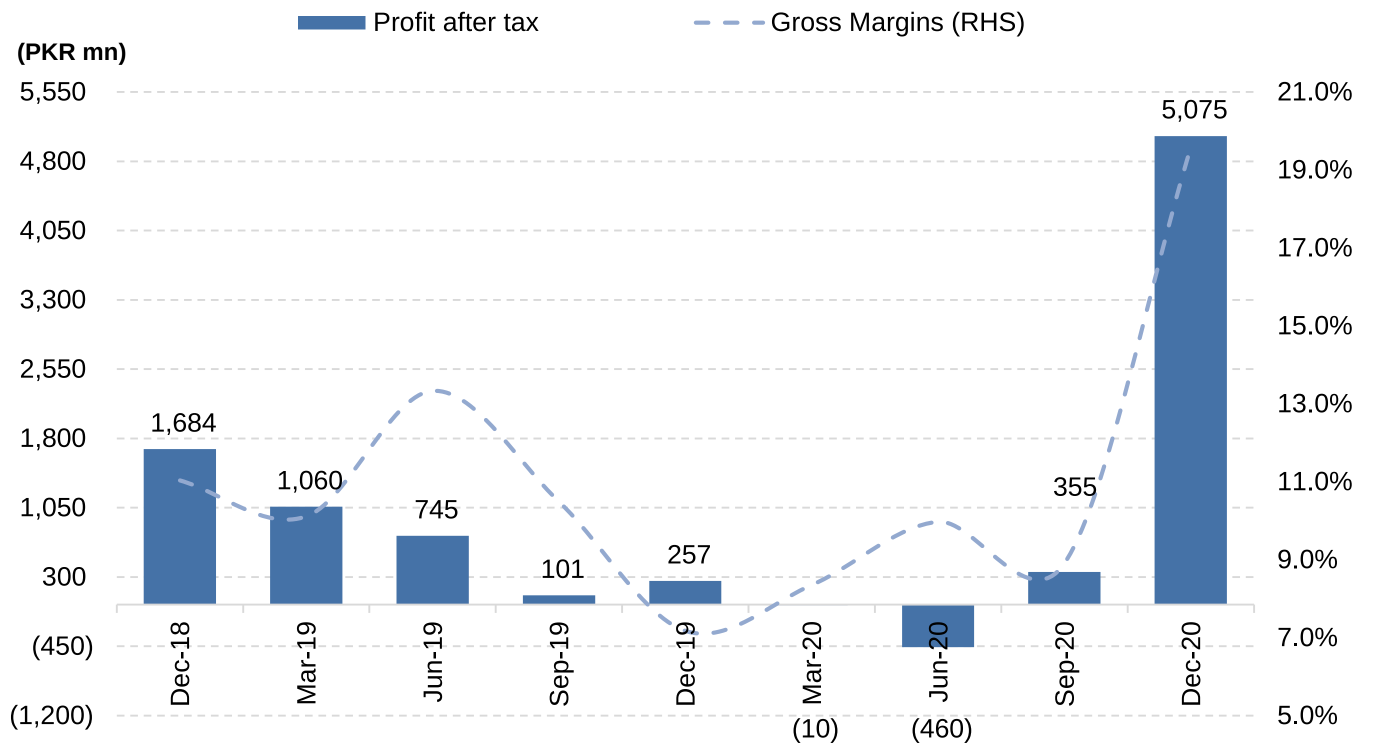
Exhibit: Steel Sector Profitability

PKR mn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
INIL*	2,655	(108)	nm	2,860	139	20.5x	(205)	nm
ISL	2,774	466	6.0x	2,215	118	18.8x	559	4.0x
Total	**5,429**	**358**	**15.2x**	**5,075**	**257**	**19.7x**	**355**	**14.3x**

Source (s): Company Financial, AHL Research, *Consolidated

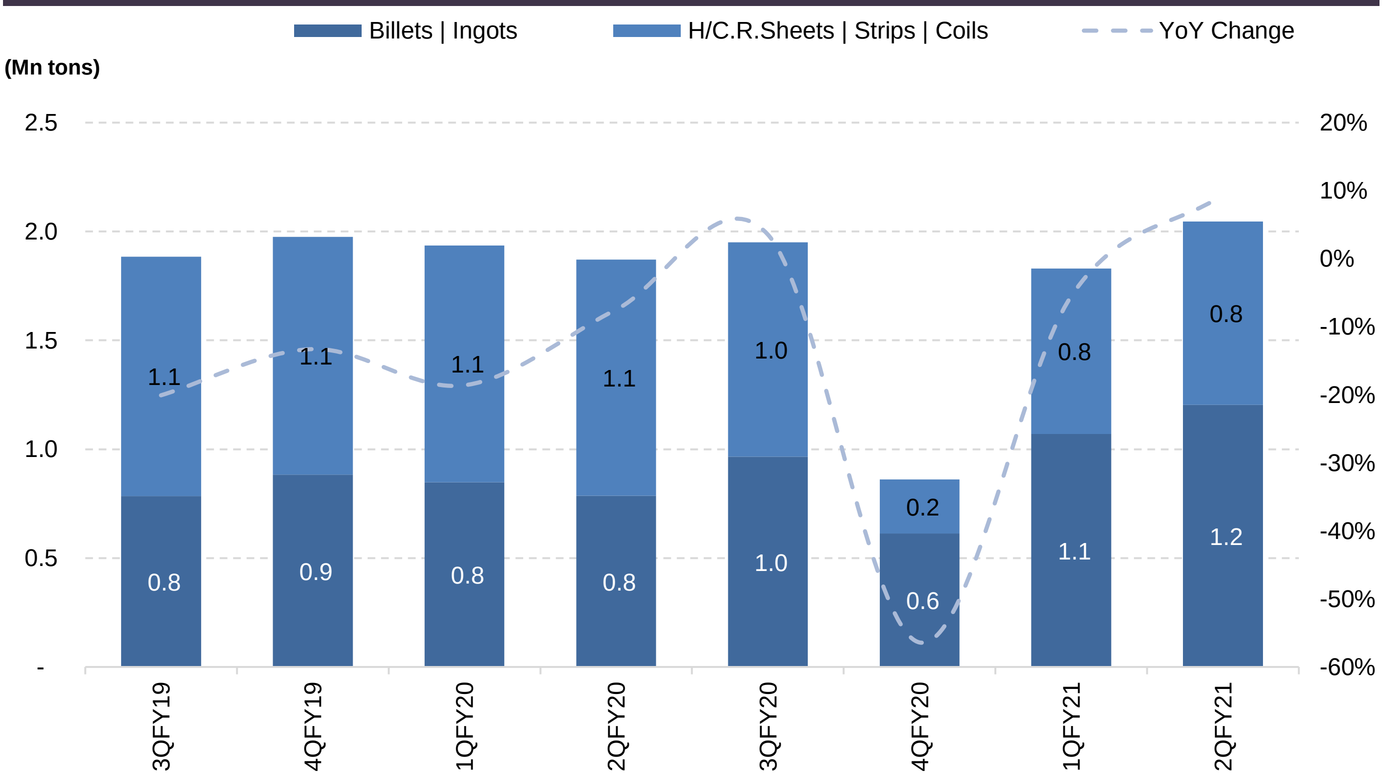
Robust Demand + Higher Prices = Margin Accretion

Exhibit: Historical Profitability and GMs of Cement Sector



Source (s): Company Financials, AHL Research

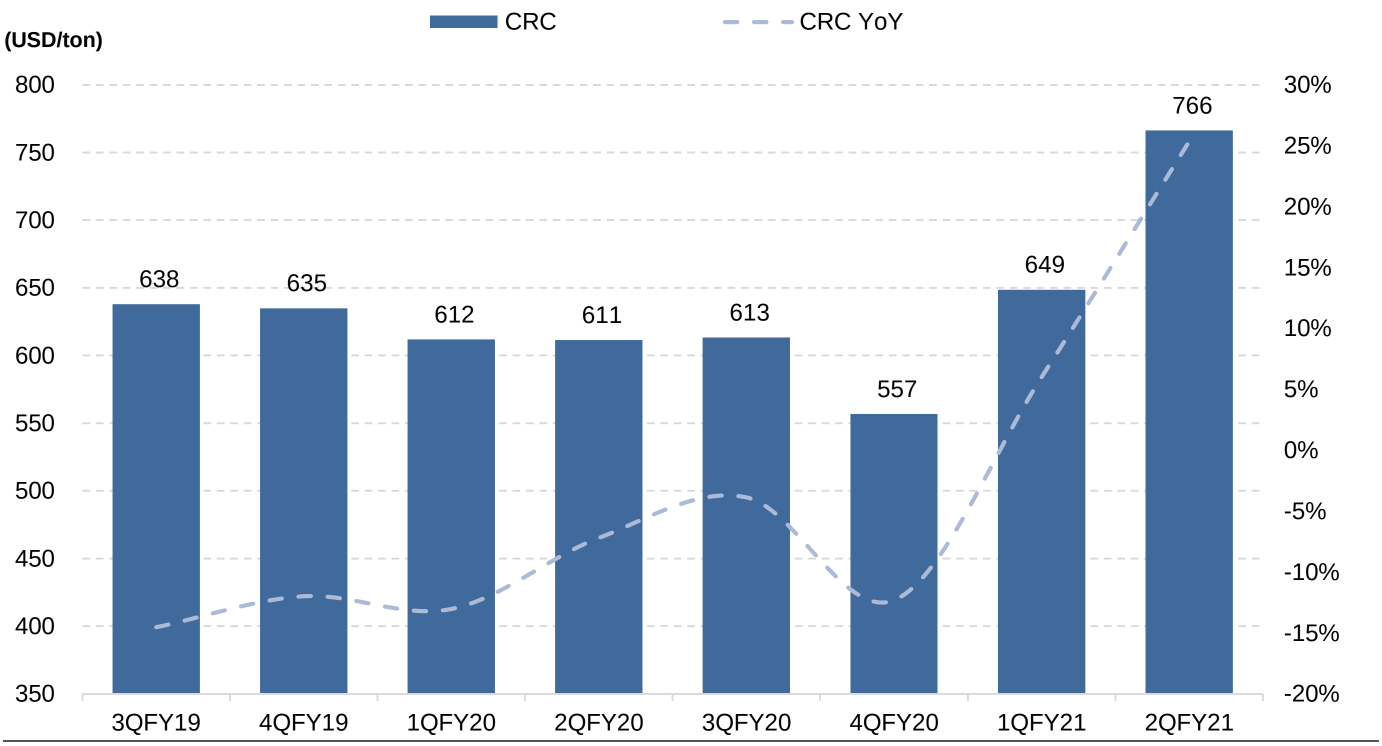
Exhibit: Steel Products Production



Source (s): PBS, AHL Research

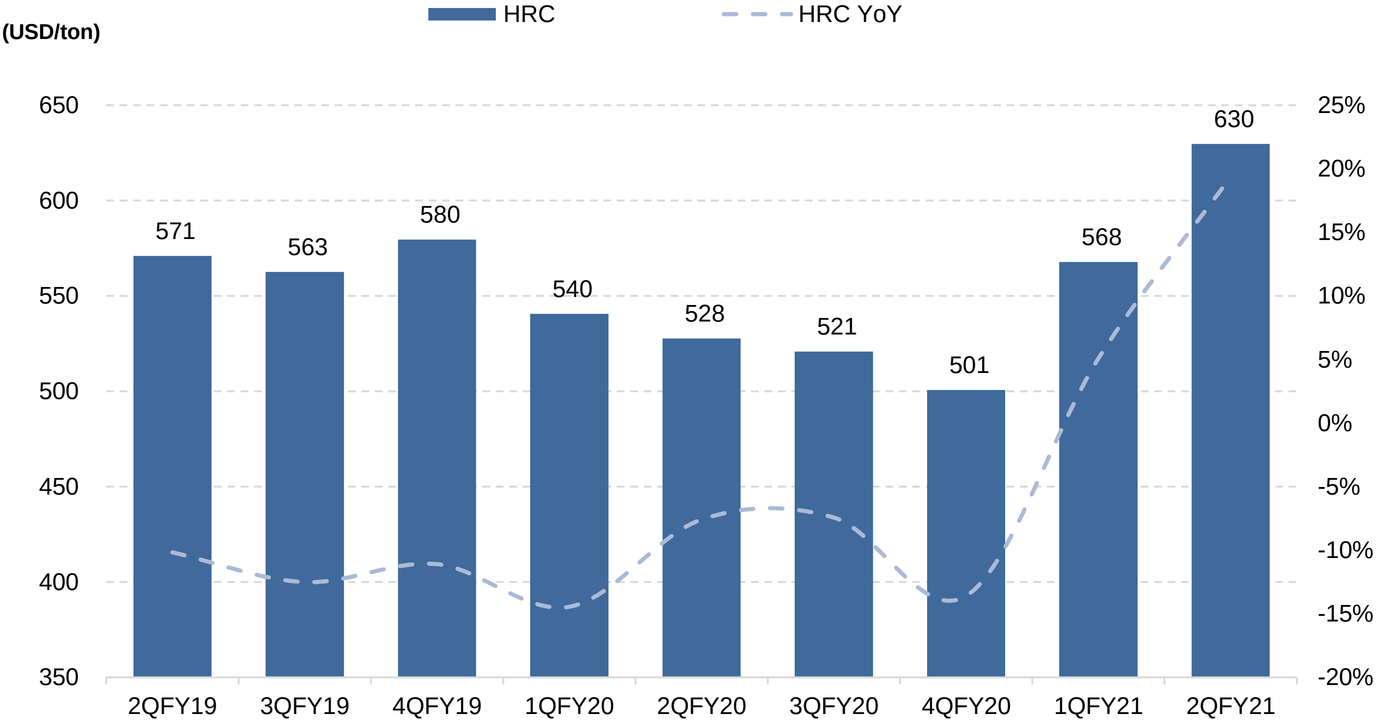
Robust Demand + Higher Prices = Margin Accretion

Exhibit: Average CRC Prices increased by 25% YoY in 2QFY21



Source (s): Bloomberg, AHL Research

Exhibit: Average HRC Prices increased by 19% YoY in 2QFY21



Source (s): Bloomberg, AHL Research

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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)

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

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

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

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- Interest Rate Risk
- Exchange Rate (Currency) Risk

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