ARIF HABIB LIMITED

REP-300

Pakistan Economy
What if Pakistan defaults?

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Best Investment Bank: 2022

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Rising default risk amid no breakthrough with IMF

Pakistan's pursuit of the ninth review of its IMF program has proven to be elusive, casting doubt on the program's completion as it nears its end (Jun'23). The country's foreign exchange reserves are at a dangerously low level (USD 4.3bn), and Pakistan is confronted with significant debt repayments until June 2024. Even in our most optimistic scenario (refer: Table below), where we assume that Pakistan will be able to receive support from bilateral friends (Saudi Arabia, UAE, and China) in the form of both rollovers and fresh funding and also run a balanced Current account, the country still faces a shortfall of ~USD 5bn to meet the external debt servicing requirement of ~USD 27bn in FY24. This clearly highlights the magnitude of challenges and risks ahead. Given support from friendly countries is often tied to IMF's tacit approval, a lack of breakthrough with the fund would make sovereign default a very high probability. While our base case assumption is that Pakistan will avert default by remaining engaged with the IMF along with support from major bilateral creditors, sovereign default nonetheless remains a real possibility.

Pakistan's default risk has risen considerably amid lack of breakthrough with the IMF

Table: Expected External Inflows vs. Outflows (assuming Balanced Current Account) - FY24E

Expected Inflows (USD mn)		Expected Outflows (USD mn)	
China rollover	4,000	A) Amortization	24,983
KSA rollover	3,000	Public Sector	19,897
UAE rollover	2,000	a) Short-term Borrowing	6,345
SWAPs- China	3,000	b) Long-term Borrowing (non-IMF)	12,552
FDI	1,000	c) Bonds	1,000
New deposit - KSA	2,000	Private Sector	5,086
New deposit - UAE	1,000	a) Short-term Borrowing	3,851
Commercial borrowing	500	b) Long-term Borrowing	1,235
IDB	1,200	B) IMF Repurchases	1,680
Total	17,700	Total	26,663
Net Outflow			(8,963)
SBP expected reserve (Jun'23)			4,000
Shortfall			**(4,963)**

Source (s): SBP, IMF, AHL Research

Sovereign default and its repercussions

A sovereign default is a costly financial event for both the sovereign and investors that can cause collateral damage to the economy of a defaulting country. This report delves into the multifarious repercussions of sovereign default on the economy (taking cues from the other countries that have defaulted), examining the far-reaching consequences faced by nations when they fail to meet their financial obligations. Sovereign default inflicts significant economic instability, eroding investor confidence and impeding access to international financial markets. The ensuing escalation in borrowing costs exacerbates financial challenges, while decreased credit availability hampers a country's ability to fund critical operations and drive economic growth. Currency devaluation, often an unfortunate consequence, leads to inflationary pressures and diminished purchasing power for citizens. Governments grappling with default often resort to implementing austerity measures, further burdening the populace and heightening social tensions. Legal battles and litigation can ensue, prolonging the resolution process and undermining prospects for recovery. Moreover, a tarnished international reputation hinders foreign investment, trade agreements, and the overall standing of the defaulted nation. In sum, the aftermath of sovereign default entails dire social and economic consequences, underscoring the fragility of nations

Sovereign default can have multifarious repercussions on the country's economy including financial, political and social

and the intricate dynamics that shape the global financial landscape. We highlight some of the major implications of default taking clues from global experiences.

Exhibit: Default or Distressed Exchange of foreign currency (FC) and local currency (LC) debt

Default Date	Country	Total Defaulted Debt ($bn)	Sequence of Default Events (DE = Distressed Exchange)	Foreign or Local Currency Bonds
Aug-98	Russia	72.7	Missed Payment, DE, Missed Payment, DE, DE	FC, LC
Sep-98	Ukraine	1.3	DE. DE, DE, Missed payments, DE	FC, LC
Jul-99	Pakistan	1.6	(Grace period missed payments), Missed payment, DE	FC
Aug-99	Ecuador	6.6	Missed payments, DE	FC, LC
Jan-00	Ukraine	1.1	Missed payments, DE before maturity	FC
Mar-00	Ivory Coast	0.4	Missed payments	FC
Nov-01	Argentina	82.3	Debt swap open to locals only, DE, Missed payment, Podsolization, DE, Re-open, DE	FC, LC
Jun-02	Moldova	0.1	(Grace period missed payments), DE, Missed payment, DE	FC
May-03	Uruguay	5.7	DE	FC
Sep-04	Grenada	0.1	Missed payments, DE	FC, LC
May-05	Dominican Republic	1.6	(Grace period missed payments), DE	FC
Dec-06	Belize	0.2	Missed payment, DE	FC
Jul-08	Seychelles	0.3	Missed payments, DE	FC, LC
Dec-08	Ecuador	3.5	Missed payments, DE	FC
Sep-12	Belize	0.5	Missed payments, DE	FC
Feb-13	Jamaica	9.1	DE	FC, LC
Mar-13	Grenade	0.2	Missed payments	FC, LC
Jul-14	Argentina	29.4	Missed payments	FC
Oct-15	Ukraine	13.3	Missed payments, DE	FC
Apr-16	Mozambique	0.7	DE	FC
Feb-17	Mozambique	0.7	Missed payments, DE	FC
Mar-17	Belize	0.5	DE	FC
Nov-17	Venezuela	31.1	Missed payment, ongoing	FC, Ongoing
Jun-18	Barbados	3.4	Missed payments, DE	FC, LC
Feb-20	Argentina	1.4	Missed payments, DE	FC, LC
Mar-20	Lebanon	6.6	Missed payment, DE, ongoing	FC, Ongoing
Apr-20	Ecuador	17.3	DE	FC
Jul-20	Suriname	0.7	Missed payment, DE, ongoing	FC, Ongoing
Aug-20	Belize	0.5	DE	FC
Nov-20	Zambia	2.3	Missed payment, DE, ongoing	FC, Ongoing
Sep-21	Belize	0.6	Missed payments, DE	FC
May-22	Sri Lanka	12.6	Missed payment, ongoing	FC, Ongoing
Jun-22	Russia	37.1	Missed payment, ongoing	FC, Ongoing
Jul-22	Belarus	3.3	Missed payment, ongoing	FC, Ongoing
Aug-22	Ukraine	22.8	Missed payment, ongoing	FC, Ongoing

Source: Moody's Investor Service

Loss of Market Access

In the event of a default, where a country fails to meet its debt obligations, one of the significant challenges it faces is the restoration of market access. Market access refers to a country's ability to borrow funds from international financial markets at reasonable interest rates. When a country defaults, it signifies a breach of trust between the debtor nation and its creditors. Lenders become reluctant to provide new loans as they fear a repeat of the default, which poses a significant risk to their investments. Historical studies have pointed to a more limited impact of default on market access and funding costs mainly concentrated in the first two years. However, more recent studies by Cruces and Trebesch (2013) and Catao and Mano (2017) highlight that depending on the severity of the default (as measured by the size of the haircut and duration of the

One of the biggest challenges for a country post default is restoration of market access

default) there appears a more persistent and sizeable default premium of 200 basis points and a longer exclusion period from international markets.

In the case of Pakistan, if it were to default on its debt, it would likely face difficulty in borrowing further funds, as lenders become reluctant to lend due to the high risks involved. Moreover, we believe, even if Pakistan is able to secure a loan, the interest rates attached to it are likely to be very high only adding burden to the mark-up servicing of the country. Similar situation was witnessed back during 1998-99 when Pakistan was on the brink of default and resorted to a variety of measures to raise funds from external sources as well as restructure some debt. The IMF provided emergency assistance to Pakistan with a USD 1.6bn loan. During the same period, the World Bank, IDB and ADB approved USD 100-300mn worth of loans for various reasons. In addition, the Paris Club nations agreed to reschedule Pakistan's debt repayments in Dec'98. Under the rescheduling agreement, Pakistan saw sharp reduction in the Net Present Value (NPV) of external debt (between 28 to 44 percent). Other defaulted countries like Argentina have been negotiating with creditors to restructure debt. The country has also received loans from international financial institutions, including a USD 50bn loan from the IMF in 2018. On the other hand, Venezuela which defaulted on its debt in 2017 has been struggling to raise borrowing ever since. The country has been largely cut off from international financial markets due to US sanctions, and has turned to allies like Russia and China for loans.

More recent studies on the market access points to a default premium of 200 bp and an exclusion period in excess of two years from international markets

Trade restrictions

Defaults have a significant impact on the international trade of an economy, as they can undermine investor confidence and disrupt the flow of capital. Both Argentina and Greece experienced a decline in their competitiveness post default which led to a decrease in exports and a worsening of their current account deficits. However, the severity of the situation differed between the two countries, with Greece's current account deficit being approximately five times larger than that of Argentina. If Pakistan defaults on its debt, it may become more difficult for the country to import even essential goods such as petroleum, machinery, and medicinal products. Approximately 73.4% of total imports account for essentials, as of 10MFY23 (Exhibit below). Moreover, in case of default, exports may suffer from a combination of non-availability of raw materials, energy shortages as well cancellation/shift of export orders to more stable competitors. As of 10MFY23, 60.8% of Pakistani exports are from textile which itself is reliant on import of raw materials such as cotton.

Defaults can lead to a reduction in trade competitiveness and decline in exports as seen with Argentina and Greece

Exhibit: Imports Breakup

Commodity Group	FY22	FY21	YoY	% of total	10MFY23	YoY	% of total	Apr-23	YoY	% of total
Essential Imports										
Petroleum	18,743	9,747	92%	26%	15,357	6%	34%	1,284	-29%	35%
Agriculture & Other Chemical	10,675	8,523	25%	15%	7,037	-21%	16%	462	-52%	12%
Food	7,932	7,247	9%	11%	6,946	2%	15%	554	2%	15%
Textile	5,705	4,759	20%	8%	3,839	-19%	8%	364	-33%	10%
Total	**43,055**	**30,276**	**42%**	**60%**	**33,179**	**-5%**	**73%**	**2,664**	**-31%**	**72%**
Non-Essential Imports										
Machinery	9,644	8,317	16%	13%	3,876	-52%	9%	305	-64%	8%
Metal	5,897	4,584	29%	8%	2,960	-40%	7%	198	-54%	5%
Transport	3,629	2,746	32%	5%	1,112	-64%	2%	101	-67%	3%
Miscellaneous	1,155	1,163	-1%	2%	648	-34%	1%	51	-40%	1%
Others	8,163	7,188	14%	11%	3,427	-48%	8%	388	-11%	10%
Total	**28,487**	**23,997**	**19%**	**40%**	**12,024**	**-49%**	**27%**	**1,043**	**-51%**	**28%**

Source (s): SBP, AHL Research

From higher to hyper inflation

Pakistan is already facing severe inflationary pressure, with headline inflation hovering above 28% FYTD which could amplify manifold in case of a default event. Taking cues from the economies like Argentina, Zimbabwe and Venezuela, the inflation outlook in such a scenario prints a gloomy picture. Argentina's default during 2001 led to a sharp devaluation of the currency and hyperinflation, with prices rising by over 40% at one point. Similarly, in Zimbabwe, a default in 2000 and subsequent hyperinflation led to prices doubling every 24 hours, rendering the currency practically worthless. More recently, Venezuela has also experienced hyperinflation following a default on its debt obligations. In 2017, the country's inflation rate crossed three digit, with the government printing money to finance its spending and pay off its debt obligations. The resulting hyperinflation led to severe economic and social consequences, including a shortage of basic goods and services, high levels of poverty, and political instability.

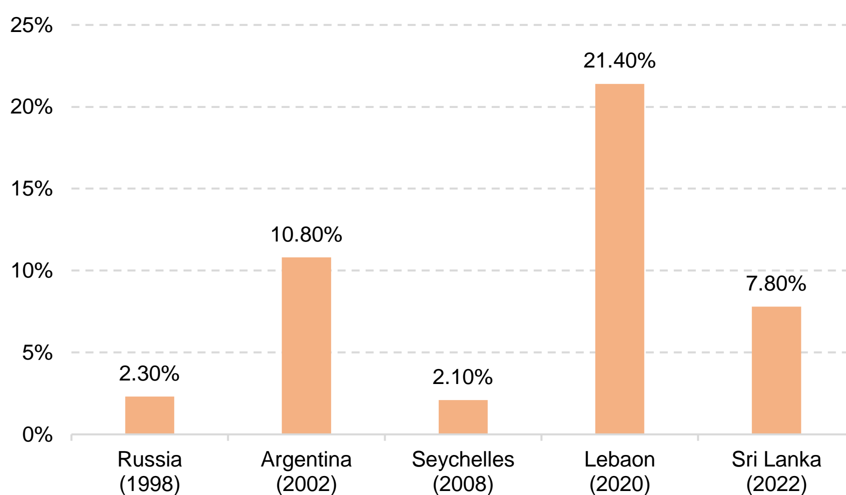
Pakistan's already high inflation rate of 37% can rise even further in a possible default scenario

Contraction in GDP

Pakistan could see a sharp contraction in GDP as well as devaluation of the currency. Already struggling with economic challenges like high commodity prices, political instability, weak currency, Pakistan's GDP is expected to slow-down in FY23 to ~1%. However, a default shall only make matters worse with GDP likely to contract. We have analyzed numerous examples of GDP trend during default episodes for other countries. For instance, Argentina's GDP growth rate started to decelerate in 1998, and by 1999, it entered a phase of negative growth that persisted until 2003. The most significant downturn took place between 2001 and 2002 when the country witnessed the complete breakdown of the currency board system. Sri Lanka found itself caught in a prolonged period of slow economic growth after a crisis. According to official data, the country's gross domestic product contracted by 8.2% in the second quarter of the 2022. Consequently, in late June 2022, citizens were advised to observe a two-week stay-at-home period as the government-imposed fuel usage restrictions, exacerbating public discontent.

Sovereign defaults often lead to contraction in GDP with 7.8% GDP contraction for Sri Lanka in 2022

Figure: GDP contraction in the year of default



Source (s): CEIC

What if Pakistan defaults?

According to a statistical study conducted by CEPR in 2021 looking at the date of defaults across the past 100 years, there was moderate but statistically significant contraction in economic activity in the aftermath of defaults. Output on average fell ~1.6% on impact peaking at ~3.3% after two years and reverting back to trend by year five. Every default is however different and depending on post default restructuring and reorganization the magnitude and duration of GDP contraction would be different.

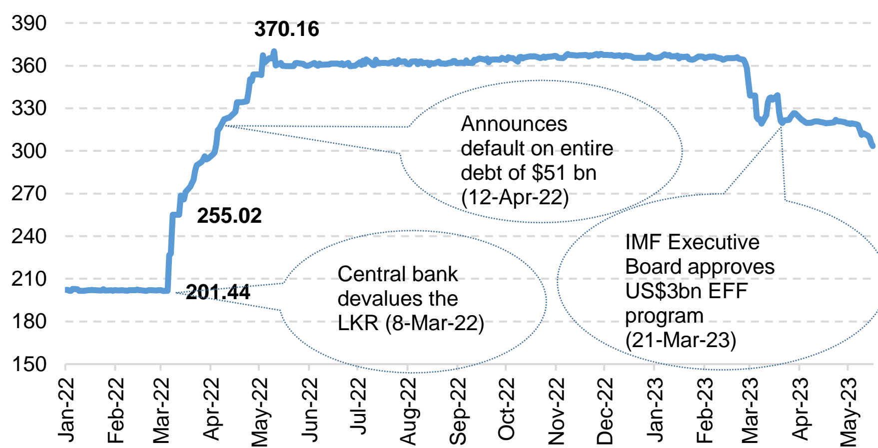
According to CEPR study on 100 years of default, average GDP contraction was 1.6% immediately and 3.3% after two years

Steep devaluation of the currency

Another key implication of a sovereign default is the exchange rate with the PKR expected to lose value against the US dollar and other currencies. Taking the recent example of Sri Lanka during the economic crisis in last year, the Sri Lankan currency experienced significant depreciation against the USD. The Sri Lankan currency had started to feel the effect pre-default as depleting forex reserves forced the central bank to devalue the currency on 8th Mar 2022 resulting in the movement of the exchange rate from 202 Sri Lankan Rupees (LKR) per US dollar to 255 LKR/USD within a span of only two days. Subsequent depreciation continued in the days that followed, with Rupee depreciating to 322 LKR/USD ahead of the formal default announcement on April 12 and hitting an all-time low closing of LKR 370 on May 12th. LKR has since recovered following the breakthrough on the IMF EFF program and currently trades at 304 LKR/USD.

Steep devaluation of the PKR a likely outcome post default similar to the trend witnessed in Sri Lanka

Figure: Timeline of USD/LKR exchange rate (pre/post default)



Source (s): Bloomberg, AHL Research

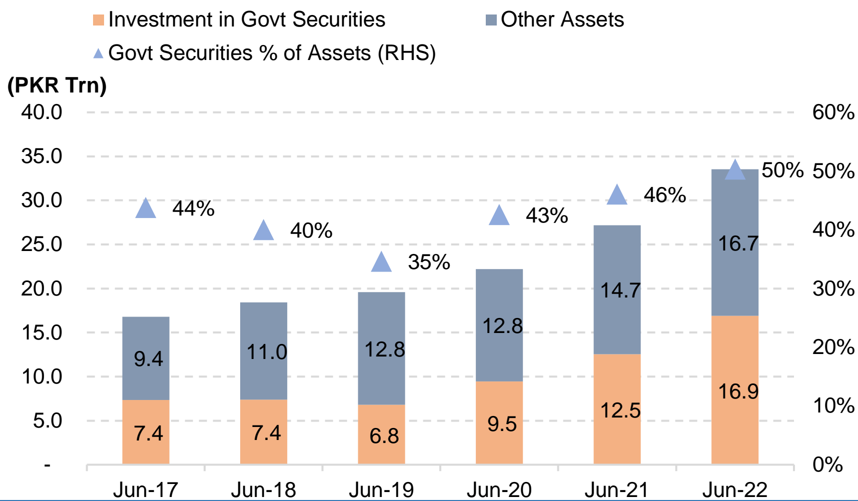
Implications for the domestic banking sector

Sovereign default can also have serious implications for banks and other relevant institutions, especially if they hold large amounts of government debt. The Eurozone crisis in the late 2000s is a prime example of this “top-down” sovereign-financial spillover. Multiple researchers have studied the impact of sovereign defaults on the domestic banking sector and its spillovers with a broad consensus that sovereign default risk in countries with a large financial sector can result in aggregate credit shortage, decline in investment, a possible banking crisis, and overall contraction in output. A widely cited paper on the link between sovereign default and banks is Gennaioli et al. (2014), which found that sovereign defaults are followed by a significant decline in private credit and that this post-default credit crunch is stronger for countries in which banks hold substantial government debt. The following paper by the same authors again found a strong negative correlation between a bank's holdings of government bonds and its lending during sovereign defaults. Given that Pakistani banks have very high exposure to government debt in the form of both investment in

Pakistan bank’s sizeable holdings of government treasuries put them at risk potential spillover effects from default

government treasuries (50% of assets) and lending to government owned entities (6%), sovereign default can result in a major spillover on to the domestic banking sector.

Figure: Bank's investment in Govt. securities



Source (s): SBP, AHL Research

Lawsuits, sanctions, and ratings downgrade

Default could also result in economic sanctions being imposed on Pakistan by its creditors. International creditors could file lawsuits to recover the unpaid debts or to force Pakistan to fulfill its obligations. For example, in 2014, a group of bondholders sued Argentina for defaulting on its debt, and the case was eventually heard by the U.S. Supreme Court. The court ruled in favor of the bondholders, ordering Argentina to pay them over USD 1.3bn in unpaid debts. Moreover, in the case of Venezuela's default, the United States and several other countries imposed sanctions on the country, targeting its oil and financial sectors. In the case of Pakistan's 1998 default, the country was forced to seek an IMF bailout to stabilize its economy. This involved agreeing to a package of economic reforms and austerity measures in exchange for financial assistance. The IMF has also played a role in managing the fallout from other countries' defaults, such as Greece and Argentina. In addition, a default could lead to a further downgrade of Pakistan's already low credit rating which would make it extremely expensive for the country to borrow money in the future. In the case of Puerto Rico's default in 2016, the territory's credit rating was downgraded to "junk" status, which made it more difficult and expensive for the island to access the bond market. Pakistan's credit rating is currently Caa3 (Moody's) / CCC+ (S&P), which is considered to be speculative or "junk" grade.

Ratings downgrade and law suits from creditors are common post default scenarios

Exhibit: Pakistan's - Credit Rating

Moody's		S&P Global	
Date	**Rating**	**Date**	**Rating**
Jul-14	Caa2	May-08	B
Mar-15	Caa2	Oct-08	CCC+
Jun-15	B3	Nov-08	CCC
Jun-18	B3	Dec-08	CCC+
Dec-19	B3	Aug-09	B-
May-20	B3	May-15	B-
Aug-20	B3	Oct-16	B
Jun-22	B3	Feb-19	B-
Oct-22	Caa1	Jul-22	B-
Feb-23	**Caa3**	**Dec-22**	**CCC+**

Source (s): Bloomberg, AHL Research

Social unrest

Apart from economic costs associated with a default, an economy has to bear its social cost too. In the short term, a sovereign default can lead to an increase in unemployment. Moreover, it can also lead to a reduction in government spending as the government tries to manage its debt. This can lead to cuts in public services and employment. To put things into perspective, Greece witnessed a significant increase in unemployment, rising from 7.5% in 2008 to 21.7% by 2012. Similarly, Argentina experienced a surge in unemployment, with the rate growing from 13.2% in 1998 to 21.5% in 2002. Furthermore, following the default, Sri Lanka faced severe consequences, including a notable rise in poverty. For example, the unemployment rate escalated from 13.2% in 1998 to 21.5% in 2002, and the proportion of the population living below the poverty line increased from 35.9% in 1998 to 57.5% in 2002. Moreover, the rate of investment, which had already been declining in the late 1990s, plummeted from 19.1% of GDP to 11.3% in 2002. Adding to the difficulties, the economy was plagued by power blackouts, shortages of fuel, cooking oil, and food, leading to the declaration of a state of emergency and the implementation of curfews.

Increase in unemployment amid economic contraction and social unrest due to shortage of essential commodities are potential repercussions

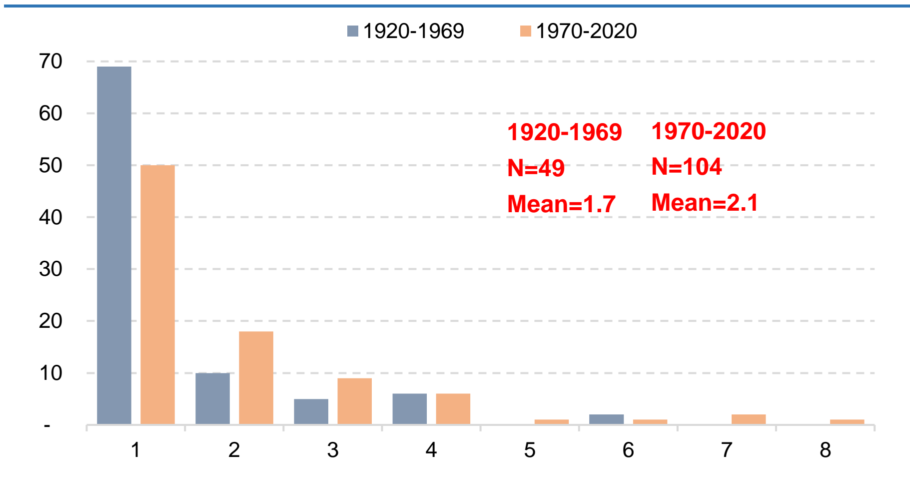
How to neutralize post default implications?

Orderly debt restructuring and debt relief

An orderly debt restructuring and debt relief can significantly reduce the duration and extent of economic pain suffered post default as almost every sovereign default is followed by debt restructuring agreements. According to studies carried out by researchers (Reinhart and Rogoff, Farah-Yacoub) most default spells are lengthy with the road to debt crisis resolution linked with multiple restructuring agreements. Analyzing the default and debt restructuring episodes over the past 100 years (1920-2020) the average debt restructuring post default was 1.7 times in the first 5 decades (1920-69) rising to 2.1x in the next 50 years (1970-2020).

An orderly debt restructuring and debt relief can significantly reduce the duration and extent of economic pain suffered post default

Figure: Number of debt restructuring per the default spell

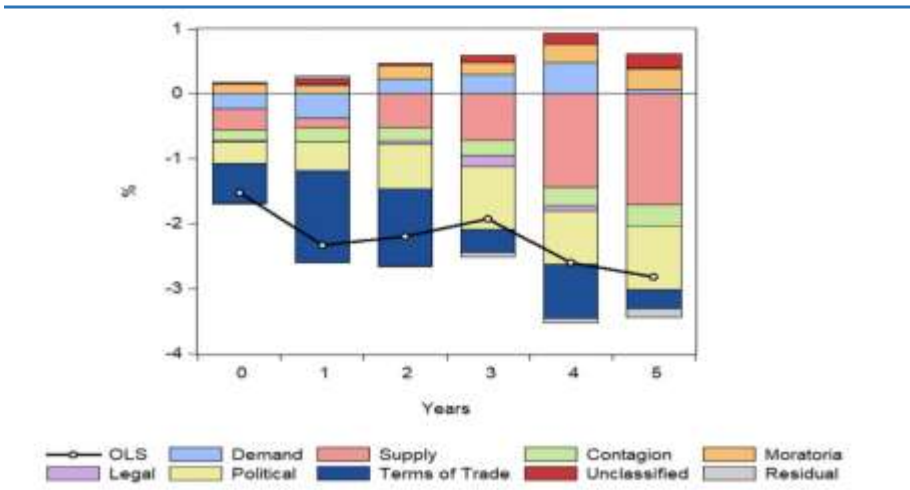


Source (s): Cruces and Trebesch, Asonuma and Trebesch, Meyer, Reinhart and Trebesch

Moreover, according to a study conducted by Reinhart and Trebesch in 2016, external debt relief (moratoria) is extremely positive for GDP and increases output by 4.2% on impact and 9.1% after five years.

External debt relief increases output by 4.2% on impact according to research by Reinhart and Trebesch (2016)

Figure: Decomposition of the average effect of sovereign default on real GDP

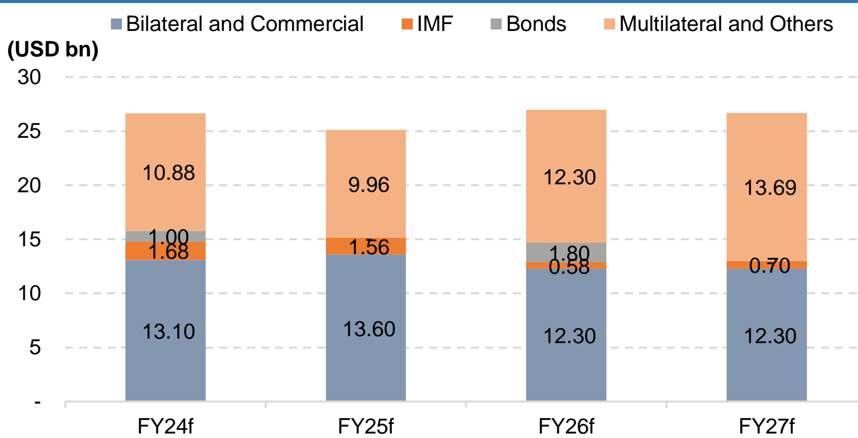


Source (s): CEPR

What if Pakistan defaults?

Pakistan is no different and would need to undergo an extensive debt restructuring exercise given the scale of debt servicing requirements over the next 2-3 years. The total public external debt outstanding as of Mar'23 is USD 96bn (28% of GDP) out of which USD 37bn relates to multilateral creditors likely to be excluded from any debt restructuring exercise. Taking a clue from Sri Lanka, Pakistan would have to engage in separate negotiations with China, other bilateral creditors, and Paris Club to chalk out a restructuring plan which also needs to have the umbrella of the IMF. To put things in perspective which was also highlighted in our earlier report **"Debt reprofiling or restructuring?"** Pakistan has total external debt servicing requirement of USD 73bn over FY24-27 out of which USD 39bn are short term bilateral borrowings mainly from friendly countries (Saudi Arabia, China and UAE) and their commercial banks. In essence the total quantum of borrowing from friendly countries is USD 13bn which is projected to be rolled over annually.

Figure: External debt servicing



Source (s): SBP, AHL Research

Exhibit: Pakistan's External Debt and Liabilities

USD Million	as of Mar'23
Public external debt	**96,282**
Commercial loans/credits	5,781
Euro/Sukuk global bonds	7,800
Multilateral	37,092
Other bilateral	17,668
Paris club	8,765
IMF	7,488
Foreign exchange liabilities	11,098
Others	590

Source (s): SBP, AHL Research

A long-term IMF program to restructure the economy

Pakistan would have to undertake a new long term IMF program to achieve macroeconomic stability via strong policy measures and deep structural reforms ahead of any discussions on debt restructuring. The recent example of Sri Lanka is a case in point where debt restructuring (as part of broader debt sustainability plan) was identified as one the five key pillars under the IMF EFF program. As highlighted in our earlier report **"Debt reprofiling or restructuring?"** a new long term IMF program is our base case assumption irrespective of any default event.

Pakistan would need a long-term IMF program post default to stabilize and restructure the economy similar to Sri Lanka

Any such IMF program would come with extreme tough conditionality covering areas such as revenue based fiscal consolidation (with social safety nets), restoration of debt sustainability, price stability, reserves build up, policies for financial sector stability and deep-rooted structural reforms in energy, SOEs, tax administration and broader fiscal expenditure lines.

Exhibit: Five pillars outlined by IMF in Sri Lanka's post default EFF program

1	An ambitious revenue-based fiscal consolidation, which is accompanied by stronger social safety nets, fiscal institutional reforms, and cost recovery-based energy pricing to ensure the state's ability to support all its essential expenditures.
2	Restoration of public debt sustainability including through a debt restructuring to ensure stable financing of the Government's operations.
3	A multi-pronged strategy to restore price stability and rebuild reserves under great exchange rate flexibility in order to alleviate the burden of inflation, particularly on the poor. And to foster an environment of investment and growth, and to ensure Sri Lanka's ability to purchase essential goods from abroad.
4	Policies to safeguard financial sector stability, to ensure that the financial sector can play its key role in supporting economic growth.
5	Structural reforms to address corruption vulnerabilities and enhanced growth. While Sri Lanka has already started implementing these challenging policy actions it is now essential to continue to reform momentum under strong ownership by the authorities and the Sri Lankan people more broadly.

Source (s): IMF

Degree of Chinese support

China remains the single most important bilateral partner for Pakistan given the deep strategic and economic links. It is also the single largest bilateral creditor contributing to an estimated 30% of Pakistan total external debt of USD 96bn, and shall play a very important role in any post default scenario. While China is likely to play a constructive role in helping Pakistan avoid a default event, it's role in a post default scenario will be even more critical particularly on two key counts. Firstly, any post default restructuring will be impossible without China and the level of support/concessions provided by China would be critical for an orderly debt restructuring. Secondly, support from major creditors in particular China is likely to be a key precondition for any new post default IMF program similar to what was witnessed in the case of Sri Lanka. Only after China gave restructuring assurances to the fund, IMF agreed to approve the USD 3bn bailout program for Sri Lanka. Given the relationship and stakes involved, China is likely to give similar assurances in a possible post default scenario.

China's support in a post default phase shall be extremely important given its sizeable share of overall debt

Availability of essential goods and effective administration

While the need for an IMF program and orderly debt restructuring are important tools to mitigate the medium to long term impact of any prospective default, government would need to take some urgent essential short-term measures to maintain public order and avoid the scenes witnessed in Sri Lanka last year. First and foremost, would be to ensure ample stock of essential goods and services including i) fuel and electricity, ii) essential food commodities such as palm oil, wheat, pulses, iii) essential and lifesaving medicines and medical equipment etc. while the country in the process of negotiation with IMF and creditors alike. The role of the administration would be critical as these situations often lead to hoarding of essential goods and unreal price movement eventual result in massive public unrest as was the case with our South Asian neighbour.

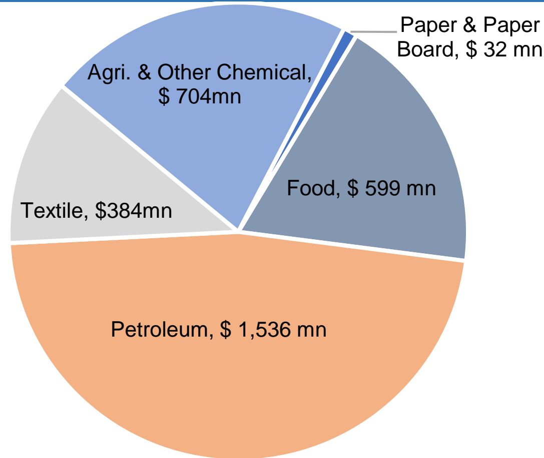
Availability of essential goods and effective administration would be crucial to neutralize the social implications post default

According to our estimates, the monthly import bill for essential goods and services is around USD 3.3bn, slightly under half of which (USD 1.5bn) relates to oil imports. Additional stock of oil and related products or deferred payment arrangement with friendly countries such as UAE and Saudi Arabia are likely options to manage the potential supply risks. Similar arrangements for food commodities such as palm oil may be discussed in advance with friendly countries such as Malaysia. Barter trade options could also be explored with countries such as Iran, Myanmar (sanctions permitting), Turkey and Bangladesh etc.

Pakistan's monthly import of essential goods amounts to USD 3.3bn which needs to be made available at all times

What if Pakistan defaults?

Figure: Monthly Essential Imports Bill (USD mn)



Source (s): SBP, AHL Research

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'23 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

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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