REP-300

Pakistan Investment Strategy 2019
An Offer You Can't Resist

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Best Domestic Equity House

Top 25 Companies

Corporate Finance House of the Year

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Synopsis

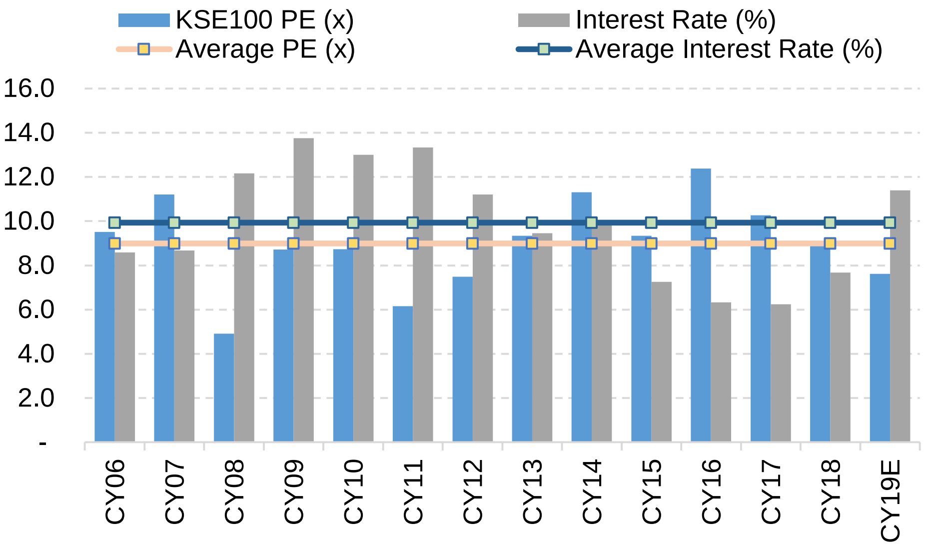
An Offer You Can't Resist – 47,000 here I come

- **35% return on the table:** Total return for our top picks is expected to be 35%, for the KSE-100 Index the return is projected to be 23%. We have used earnings growth methodology to calculate returns.
- **Enticing Valuations:** The KSE-100 index is trading below its 14-yr average PE of 9x and is currently offering investors a 2019 PE of 7.6x. These levels have not been seen since 2011, Pakistan equities are cheap.
- **Earnings Growth of 28% for 2019:** Earnings growth of our top picks is 28% while for the KSE-100 index, earnings growth for 2019 is forecast at a 5-Yr high of 15%, E&P's (+36%), Commercial Banks (+32%) and Fertilizers (+20%).

1. **E&P sector** expected to benefit from a higher PKR/USD parity (PKR 147/USD by end Jun'19; +21% YoY) and stable oil prices.
2. **Banking sector** earnings are expected to be driven by the impact of 425bps hike in interest rates during CY18.
3. **Fertilizer sector** earnings growth should benefit from better pricing.

- **Addressing of economic concerns to increase investor confidence:** Lower Current Account Deficit (expected at USD 600mn monthly from Jan'19 onwards; USD 10bn for FY19) along with arrangement of funds from IMF and friendly countries including China, UAE and Saudi Arabia are expected to brighten investor sentiment.
- **Stable PKR outlook post currency adjustment:** Following several rounds of devaluation in 2018, we estimate that the REER has now come down to 105. Historical data shows that foreigners have been net buyers when the REER falls below 100. We see a stable PKR in FY19.
- Increase in **IPOs and SPOs** is expected due to political stability.

Exhibit: Historical & Expected PE of KSE-100



Source: Company Financials, AHL Research

Exhibit: AHL Top Picks

PSX Code	Company Name	PSX Code	Company Name
PPL	Pakistan Petroleum Ltd.	BAFL	Bank Alfalah Ltd.
OGDC	Oil & Gas Dev. Co. Ltd.	SNGP	Sui Northern Gas Pipelines Ltd.
ENGRO	Engro Corporation Ltd.	NML	Nishat Mills Ltd.
UBL	United Bank Ltd.	INDU	Indus Motor Co. Ltd.
FFC	Fauji Fertilizer Co. Ltd.	BOP	The Bank of Punjab
HUBC	The Hub Power Co. Ltd.	APL	Attock Petroleum Ltd.
LUCK	Lucky Cement Ltd.	LOTCHEM	Lotte Chemical (Pak) Ltd.
POL	Pakistan Oilfields Ltd.	ASTL	Amreli Steels Ltd.
EFERT	Engro Fertilizers Ltd.		

Source: AHL Research

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Politics

Politics

Stability is Crucial

- **PTI forms its first ever gov't:** General Elections 2018 were conducted successfully in a peaceful environment on the 25th of July, 2018 in which PTI emerged as the largest party in the National Assembly, bagging 156 seats. Predecessors, PML-N, followed with 85 seats while PPPP won 54 seats. PTI formed the gov't with the help of independent candidates alongside MQM (7), PMLQ (5), and BAP (5). A new gov't is seen to erode political impasse and investment climate is perceived to be conducive
- **Simple majority in Parliament:**. We highlight that owing to the coalition nature of the incumbent gov't, certain legislation can prove to be slightly problematic and any conflict between coalition partners can cause waters to turn rough for the govt's boat.
- **Judiciary, Army and Government on the same page :** The new government, judiciary and the military all seem to be on one page, which is encouraging for addressing key issues like eliminating extremism, money laundering and initiating grass root reforms for improving governance.
- **18th Amendment might constrain performance of Federal Government:** 18th Amendment (whereby the Federal Government has to share resources with provinces and is facing higher fiscal deficit and certain major social areas like housing, health and education are termed provincial subjects) can possibly hinder accomplishment of certain economic objectives such as fiscal discipline, as well as improvement in performance of education and health sectors.
- **Healthy returns expected:** That said, we highlight that capital markets have provided lucrative returns in the first year of a newly elected gov't. An empirical study reveals that the KSE-100 has provided an average return of 31% in the first year of a new gov't, looking at the last 5 elections.

Exhibit: Current Party Position in Parliament

Year	Ruling Party	Seats	Opposition	Seats
Nov-88	PPP	94	IJI	55
Oct-90	IJI	111	PPP	44
Oct-93	PPP	89	PMLN	73
Feb-97	PML-N	137	PPP	18
Oct-02	PML-Q	126	PPP	81
Feb-08	PPP	119	PMLN	89
May-13	PML-N	166	PPP	42
Jul-18	PTI	156	PMLN	85

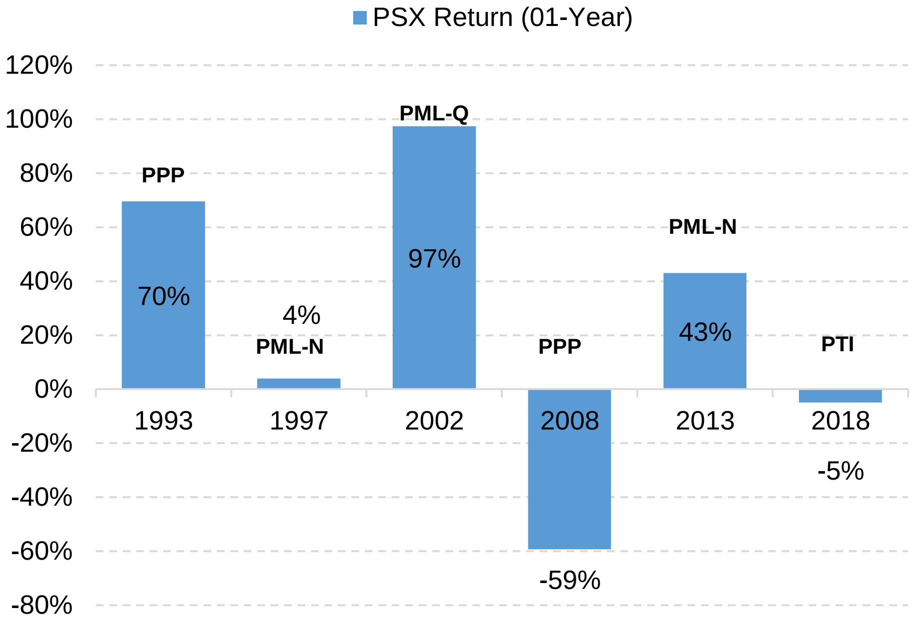
Source: National Assembly, AHL Research

Foreign Relations

Finding a Balance between Washington & Beijing

- **Peaceful stance towards India:** PM Imran Khan has made his intention of initiating an overture with India very clear right since the onset of assuming the office of chief executive. Whether it was offering a dialogue between the two countries' foreign ministers on the sidelines of the UN General Assembly session, or the successful opening of the Kartarpur Corridor (to allow access for Sikh Pilgrims to a holy shrine in Pakistan), the PM has been very upfront in establishing his intention and desires of establishing peaceful relations with India and addressing all outstanding issues through dialogue. However, the initiatives have not been met with a parallel level of enthusiasm, which is possibly owing to this being an election year in India. Going forward, improvement in relations can very much be on the cards as we see that the military leadership in Pakistan also seems to have a desire to engage with India as PM Khan emphatically stated that the army and the gov't are on one page on all policies.
- **Convergence of views with US on Afghanistan:** The relations with US are expected to improve as there appears to be convergence of views of both countries regarding dialogue as the preferred route for bringing peace in Afghanistan. We believe the recent communication between US President Trump and Prime Minister Imran Khan in this respect is a major step and is going to aid US-Pak relations and the potential bailout package from IMF.
- **China and Saudi Arabia:** In a symbolic and economically demanding move, PM Khan chose Saudi Arabia as his first official tour since taking oath. Pakistan is facing severe challenges in its Balance of Payments and is in dire need of foreign assistance. Long-standing allies Saudi Arabia responded positively to Pakistan's request and provided a USD 6bn financial assistance package. In return, Pakistan offered its services as a peacemaker for resolution of regional conflicts to the Saudi leadership. The PM also made a trip to China where a number of MOUs were signed for various investment projects and further agreements and discussions on CPEC projects. Albeit, the gov'ts on both sides, including the Pakistani military leadership, have asserted the desire to further economic and security ties between the two countries.

Exhibit: PSX Return During Elections (01-Year)



Source: PSX, AHL Research

PTI's Gove performance is till 07-Dec-2018

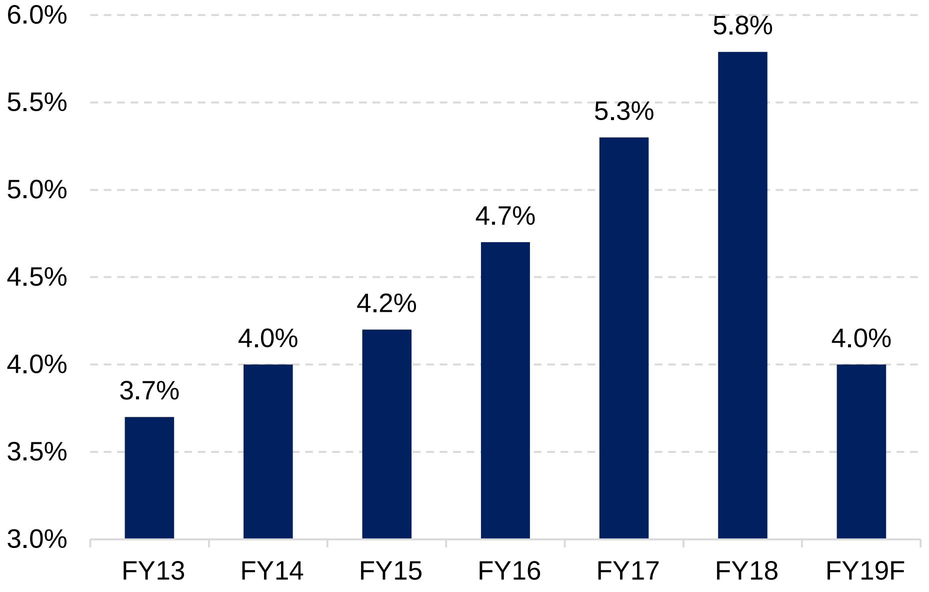
Economy: Treating the Patient

GDP Growth Rate

Household Consumption to Weaken

- Pakistan's economy is expected to grow by 4.0% during FY19 compared to a 12-Yr high growth rate of 5.8% during FY18.
- Burgeoning imports and persistently high CAD (Current Account Deficit) has led to an import cover of less than 1.6 months – stressing reserves to a 5-Yr low level of USD 8.1bn.
- 22% PKR depreciation since Dec'17 will lead to lower consumer purchasing power and hence, a compression / moderation in domestic consumption is expected. As household consumption contributes around 82% to Pakistan's GDP, a slowdown is imminent.
- Increasing remittances is a ray of hope as 4MFY19 remittances are up by 15% YoY to reach USD 7.4bn compared to USD 6.4bn for the same period last year.
- To moderate domestic demand and control macroeconomic imbalances like inflation and CAD, SBP has raised the interest rates by 425bps during CY18 (inflation in 5MFY19 has averaged at 6.02% compared to 3.5% for FY18).
- Overall, a contractionary monetary policy, a weaker exchange rate along with fiscal consolidation measures are ominous of a slowdown in the economic growth of the country.

Exhibit: Historical and Expected GDP Growth



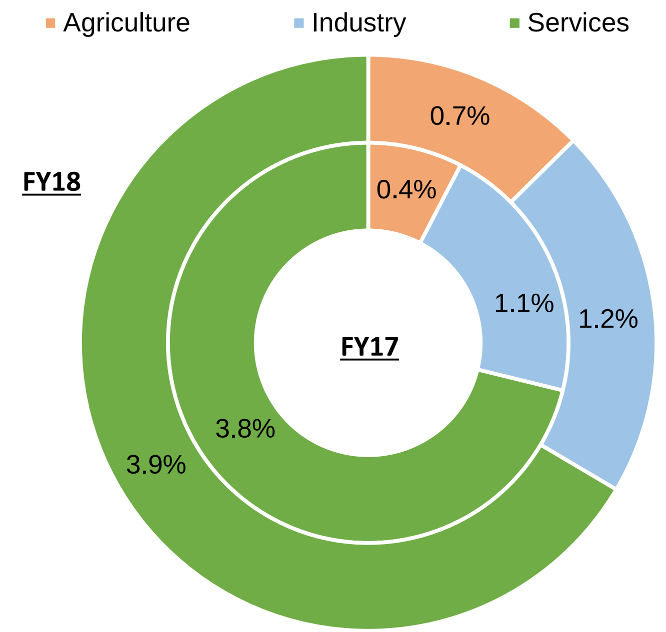
Source: MoF, AHL Research

GDP Growth Rate

Commodity Producing Sectors to Face Headwinds

- The Agriculture sector is expected to show a meagre decline of less than 1 percent as cotton output is likely to display a dip of 8%, while sugarcane crop is also expected to shrink due to delay in crushing by sugar mills.
- On the manufacturing front, growth is expected to decline as LSM pulls back amid lower requirement of Furnace Oil; refineries have reduced their throughput affecting the output for petroleum products.
- In addition, high base effect of Food, Beverages and Tobacco attributable to higher production of sugar in prior years will also give rise to contraction in growth for this year.
- Moreover, output of automobiles would also show weakness owed to the pass on impact of PKR depreciation on to consumers in the form of higher prices together with higher lease rentals amid higher interest rates and restriction on non-filers to purchase cars.
- In the services sector, wholesale and retail trade is likely to show moderation as a consequence of reduction in imports owing to steps undertaken by the gov't to control foreign exchange outflow.

Exhibit: Sectoral Share in GDP Growth



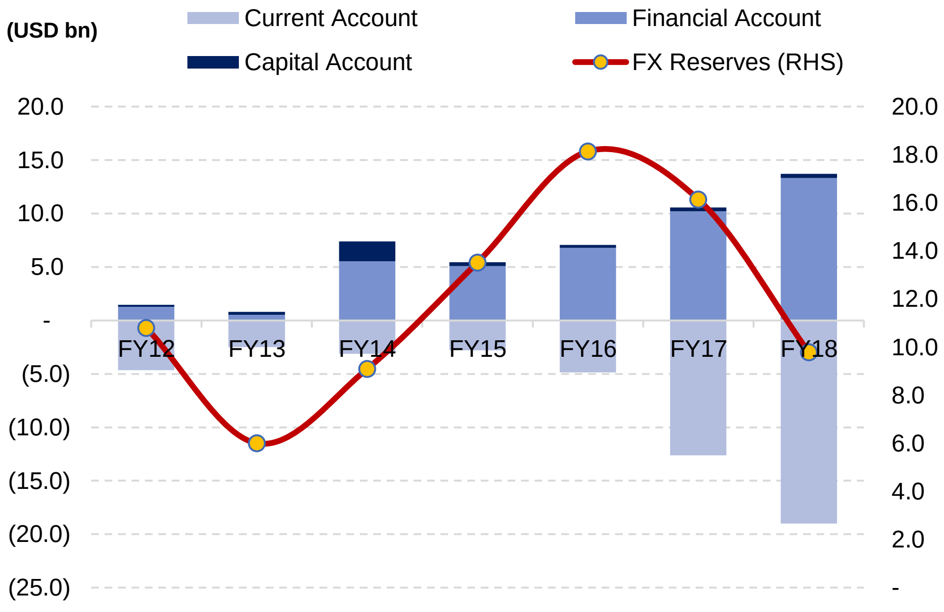
Source: MoF, AHL Research

Balance of Payments

The Achilles Heel

- Balance of Payments situation has been the Achilles heel in Pakistan's macroeconomic environment. Pakistan incurred a Current Account Deficit (CAD) of USD 19.0bn during FY18, which was 50% higher than USD 12.6bn in FY17. Albeit, the CAD has tamed recently, settling at USD 2.7bn during Aug-Oct '18, that is, 55% lower than the CAD of ~USD 6bn witnessed in May-Jul'18.
- PKR depreciation of approx. ~22% during CY18TD, has slowed down the pace of imports. If we compare imports for 4MFY19 against the same period last year, imports of all major groups except petroleum have gone down.
- The imports under petroleum group have increased owing to price hike (4MFY19 average Arab Light oil price is USD 77.0/bbl compared to USD 51.8/bbl during 4MFY18). During the same period, oil imports are down by 30% in volumetric terms due to change in fuel mix of power sector tagged with slowdown in demand for retail fuel given higher prices. Moreover, if we observe import of LNG (substituting Furnace Oil), we noticed that total petroleum imports are actually down by 12% during the said period.
- Imports have also slowed down as a consequence of conclusion of election spending as well as the fact that majority of power projects under CPEC have been completed leading to a decline in machinery imports. In addition, higher regulatory duties and restriction on advance payments on imports and on open accounts has curtailed imports.

Exhibit: Overall Balance of Payments



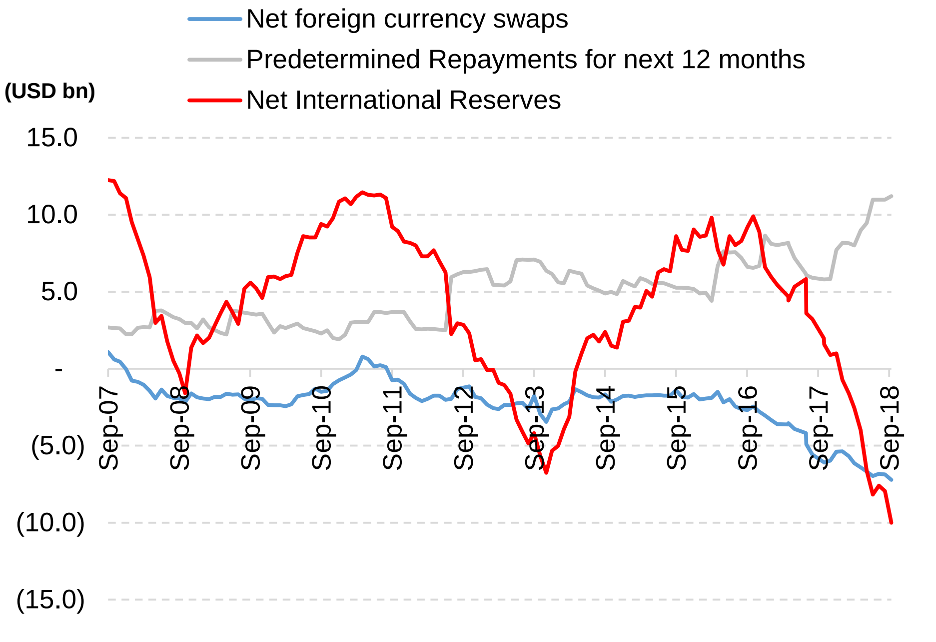
Source: SBP, AHL Research

Balance of Payments

Outlook – Rocky Ride Ahead

- The present Balance of Payments scenario seems fragile as SBP's data reveals that over the next 12 months, forward foreign currency swaps are still at an alarming level of USD 6.9bn along with scheduled debt repayments of USD 11bn.
- The Net International Reserves (NIR) calculated as per the IMF definition of usable gross reserves while adjusting for forward currency swaps and one year scheduled debt repayments has come down to a very low level of negative USD 10bn, from positive USD 5bn in Mar'17.
- This shows that although the CAD has reduced considerably, successfully navigating through next year would not only require support from friendly countries like Saudi Arabia (USD 3bn deferred oil facility which would help save foreign currency outflow and USD 3bn deposit which won't count towards NIR), China (deposit from Chinese central bank or the government will not count towards NIR but borrowing from any Chinese commercial Bank would help) and UAE, but would also necessitate support from external factors.
- Lower oil prices vis-à-vis current FYTD average, conducive international debt markets for issuance of Eurobonds and Sukuks along with borrowings from commercial banks to finance roll over of debts and successful mobilization of non-debt flows including FDI / Foreign Portfolio Investment are all necessary to support the Balance of Payments.

Exhibit: Precarious Balance of Payments Situation



Source: SBP, AHL Research

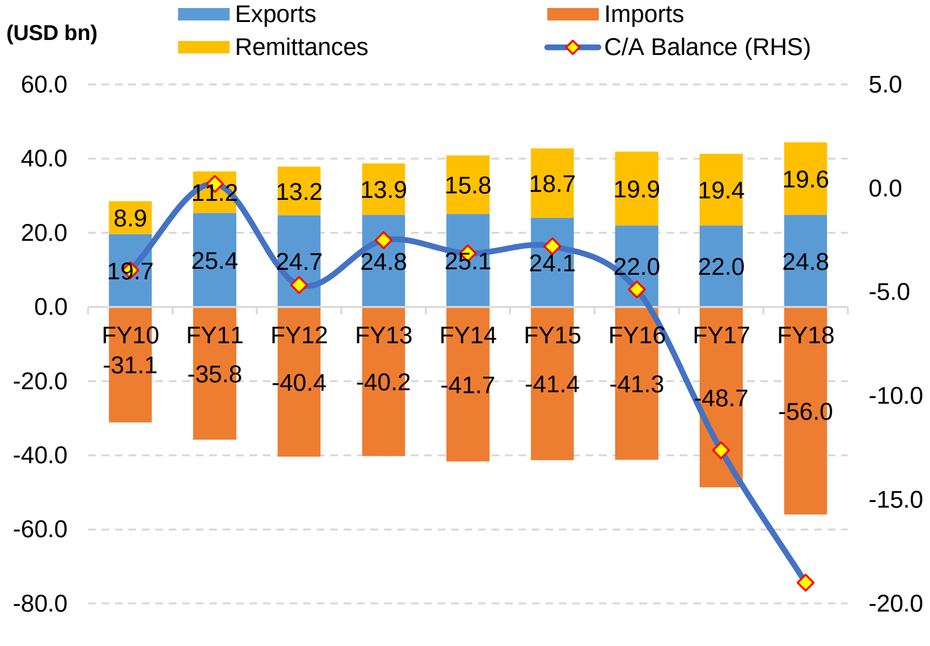
The Current Account Fiasco

Outlook – Expected to Tame Down

We have an optimistic outlook on the CAD for FY19 as the stabilization measures undertaken by the gov't alongside other macroeconomic phenomenon are likely to bear fruit. To recall, the CAD for 4MFY19 has clocked-in at USD 4.8bn depicting a decline of 4.6% YoY compared to SPLY. The downturn in CAD was led primarily by a very healthy jump in remittances (+15% YoY) during the said period, while export growth also portrayed an uptick of 4% YoY. Going forward, we expect the CAD for FY19 to arrive at USD 9.5bn implying a drastic decline of 48% YoY.

- We expect the currency depreciation to amplify its effects on the CAD as usually, the positive bearing comes in with a lagged effect. Furthermore, we expect additional weakening of the currency going forward, whereby we forecast the PKR/USD parity to settle at PKR 147/USD by the end of FY19 and PKR 152/USD at the end of CY19.
- Moreover, we believe that declining oil prices have not shown a very pronounced impact so far. This, coupled with the fact that power consumption patterns of the country are shifting away from costly sources to cheaper sources is expected to dampen the import bill of the country significantly going forward. Imposition of regulatory duties on non-essential and luxury items has also played a vital role in decelerating import growth momentum.
- Premised on these factors, we forecast a 4% YoY decline in imports of the country during FY19. To recall, petroleum imports contributed a hefty 24% to the FY18 import bill while this contribution has increased to 27% for the 4MFY19 period. Petroleum products' volumetric imports has witnessed a 20% suppression YoY (including LNG) during 4MFY19 where Furnace Oil (FO) imports have declined 90% In terms of value, petroleum products have shown a 38% uptick during the said period (higher fuel prices). With the influx of newer and efficient power generation plants running on LNG and coal, demand for FO has declined despite higher power generation (4MFY18 +6.3%).

Exhibit: Historical Current Account Deficit



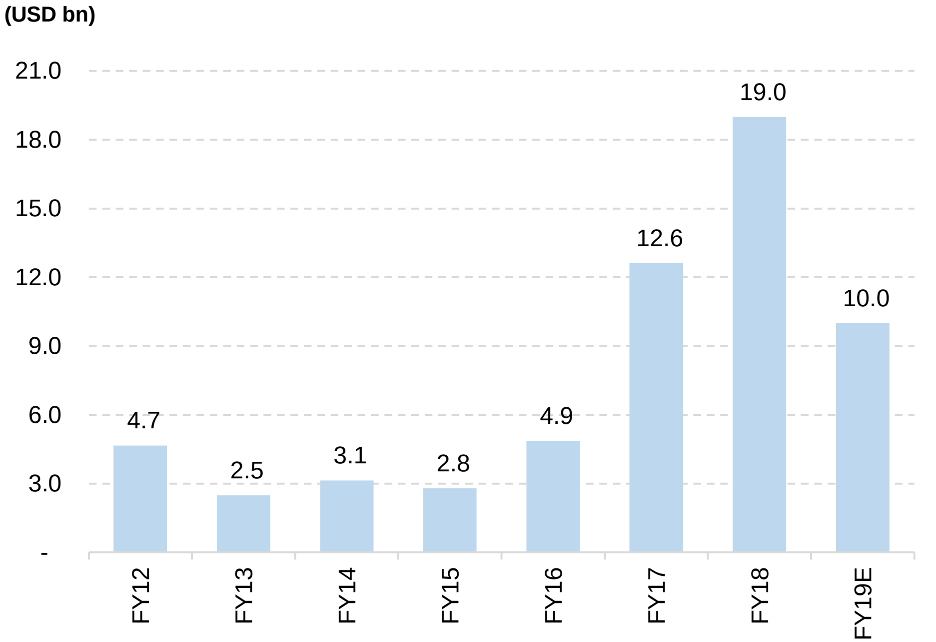
Source: SBP, AHL Research

The Current Account Fiasco

Outlook – Expected to Tame Down

- On the exports front again we expect the weakening of the currency to impact exports positively. Moreover steps undertaken to improve the exports competitiveness combined with provision of various incentives to export-oriented sectors are also likely to help alleviate the infamous export stagnancy issue of the country. We forecast exports to portray a 6% YoY increase during FY19.
- Remittances are also expected to continue their healthy trajectory upwards and we expect the growth to clock-in at 13% YoY during FY19. We attribute the continuation of the aggressive momentum of remittances inflow to the weakening of the Pak Rupee which is incentivizing expat Pakistanis to remit larger amounts. Moreover the global clampdown against money laundering and enforcement of regulations is also forcing money inflows through official channels. Additionally, the recent remittances framework approved by GoP is also likely to have a positive bearing on remittances inflow.
- Compliance with FATF (Financial Action Task Force) recommendations are also going to increase the flow of remittances via official channels.

Exhibit: Historical & Forecasted Current Account Deficit



Source: SBP, AHL Research

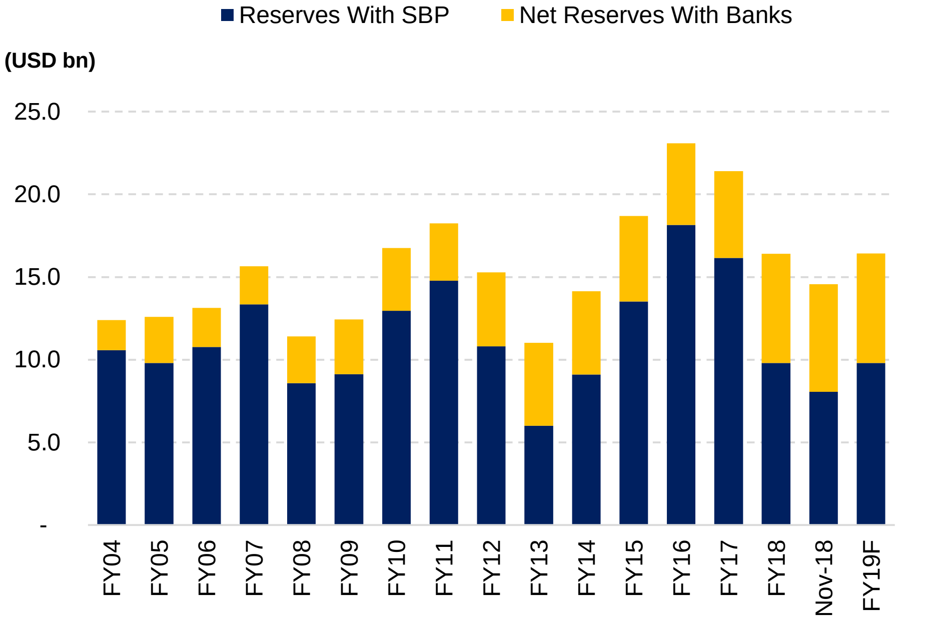
FOREX Reserves

Outlook – Financing from IMF & friendly countries crucial

- We expect SBP's gross reserves to settle at USD 9.9bn as compared to USD 9.8bn in FY18. While we estimate debt servicing to clock-in at USD 8bn for the remaining of FY19. Mobilization of additional funds are expected to amount to USD 16bn for FY19; we highlight key sources and major repayments below:

1. USD 6bn from Saudi Arabia - USD 3bn as immediate BoP support and USD 3bn deferred oil payments. USD 1bn has already been deposited into the SBP.
2. We expect USD 5bn assistance from China and USD 2bn from UAE.
3. USD 1bn tranche (disbursement during FY19) from a possible IMF bailout package. Contingent on IMF bailout are:
    - USD 2bn from Eurobond + Sukuk issuance.
    - USD 2bn from Commercial Banks.
4. Scheduled debt repayments of USD 8bn are outstanding during FY19.
5. We expect the Pakistani Rupee to reach PKR 147/USD by Jun'19.

Exhibit: Historical and Forecasted FX Reserves



Source: SBP, AHL Research

Inflation

100bps Rate Hike Likely due to PKR Devaluation

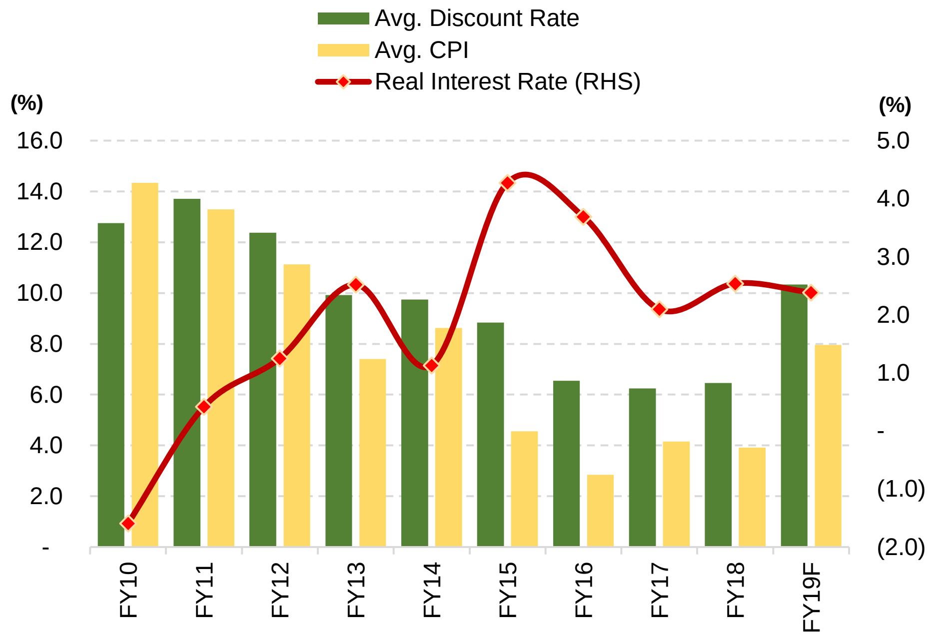
We expect inflation during FY19 and CY19 to surge to 7.95% and 8.58% due to i) uptick in gas tariff for industries and retail consumers, ii) higher house rent index, iii) surge in petroleum prices on account of escalating international oil prices and PKR depreciation, iv) incease in food related items which are directly linked with USD, and v) low base of preceding year. During 5MFY19, headline inflation averaged at 6.02% compared to 3.92% in SPLY.

- **Aftershocks of PKR Depreciation:** In FY19TD, we observed multiple rounds of PKR depreciation (14% from PKR 121.50/USD to PKR 139.06/USD) which has had its own repercussions on inflation and we believe the full impact will be visible from Jan’19 onwards. However, it is fortunate that three fourths of the CPI index basket is not linked with international prices. This, coupled with declining international crude oil prices may ease inflationary pressure in upcoming months. It would be worth mentioning that unlike 2008, Pakistan has ample supplies of essential products like wheat and urea, therefore, no major shortages or major surge in prices are expected.

- **SBP Outlook on Inflation:** State Bank of Pakistan revised its inflation target from 6.0-7.0% to 6.5-7.5% after considering various factors including i) upward revision in duties in the supplementary budget, ii) potential pass through of exchange rate adjustment, iii) volatility in food prices, and iv) cost pressure due to increase in gas tariffs and international oil prices.

- **Policy Rate Outlook for FY19:** We believe that the central bank will once again adopt a proactive approach and increase policy rate by further 100bps in Jan’19 to maintain real interest rate of 200bps as we expect inflation to touch double digits in Feb’19 or Mar’19. However, we anticipate central bank may not increase policy rate above 11.00% on the back of lower inflation from Mar’19 onwards and declining international oil prices which will have its pronounced effects from Jan’19 onwards.

Exhibit: Real Interest Rate



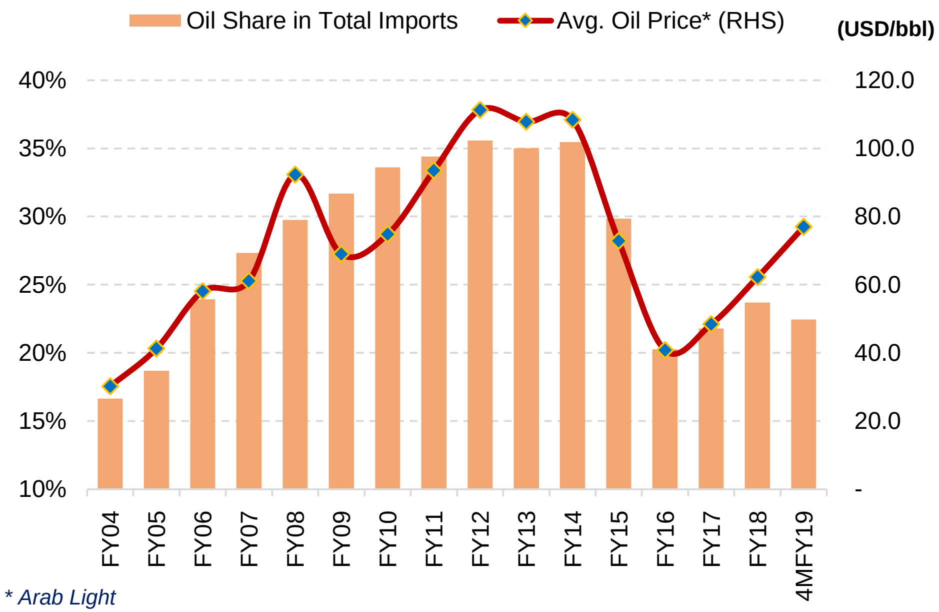
Source: SBP, AHL Research

Oil Prices – A Silver Lining

From a 4-Yr High to a 13-M Low

- International oil prices have been on a roller coaster ride. Arab Light prices (the most relevant benchmark for Pakistan) were around USD 60/bbl in FY18.
- During 1QFY19, average prices surged by 50.2% YoY to reach USD 75.7/bbl while increasing by another 6% on average to reach USD 80/bbl in Oct'18.
- Pertinently, higher oil prices have a significant impact on Pakistan's balance of payments as the country imports approximately 85% of its oil requirements, contributing 27% towards its total imports (4MFY19). Imports under the petroleum group surged by 17% YoY during 4MFY19 to reach USD 5.6bn from USD 4.4bn as higher prices (+49% for 4MFY19 of USD 76.97/bbl vs USD 51.8/bbl for 4MFY18) offset the impact of lower volumetric imports (-32% to 6.3mn tons for 4MFY19 vs. 9.3mn tons for 4MFY18, excluding LNG).
- In the last few months, we have seen the initiation of a possible downwards trajectory in oil prices, as the US announced waivers for 8 countries for purchasing oil from Iran. The OPEC (Organization of Petroleum Exporting Countries) has announced a cut of 1.2mn barrels per day, which is expected to eliminate the imbalance in the supply and demand of oil and normalize the price
- Arab Light prices declined by 31% from their peak of USD 85.8/bbl to touch a 13 month low of USD 58.9/bbl on Nov 29, 2018.
- This development is fairly recent and is therefore not visible in period averages. However, if we assume that oil prices will continue to hover around the same levels (USD 65/bbl for Arab Light) for the remaining part of the fiscal year, the import bill for petroleum group would remain around USD 13bn for FY19. This estimate incorporates the recent changes in Pakistan's fuel mix due to addition of newer power plants in Pakistan's power sector
- We expect Arab Light prices to average at USD 65/bbl in FY19 and FY20.

Exhibit: Share of oil Imports and Average Oil Prices



** Arab Light*

Source: SBP, Bloomberg, AHL Research

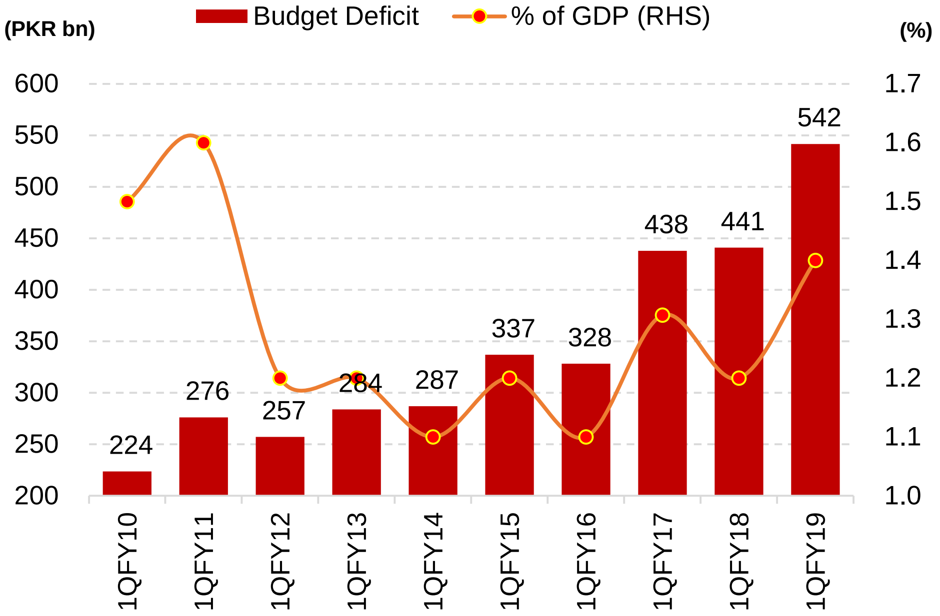
Fiscal Deficit

No Signs of Redemption Yet

- Fiscal deficit during FY18 clocked-in at 6.6% of GDP, which was a 5-yr high.
- Finance Minister Asad Umer (in his speech during the Finance Supplementary Bill) announced the govt's target for the fiscal deficit at 5.1% for FY19. During 1QFY19, the deficit clocked-in at PKR 542bn (1.4% of GDP) vis-à-vis PKR 441bn (1.2% of GDP) during 1QFY18, portraying a YoY jump of 23%.
- The surge in the fiscal imbalance was led by a 19% YoY rise in Current Expenditure, with debt servicing increasing 14% YoY and defence expenditure showing an uptick of 21% YoY.
- We highlight that in the prevailing rising interest rates scenario, debt servicing can see a drastic uptick going forward. That said, during 1QFY19 domestic financing has registered a 24% YoY decline, led by 77% decline in bank borrowings, while reliance on external financing increased significantly (+2553% YoY).
- Tax revenue showed a meagre uptick of 7% during the said period, with direct tax revenue rising only 4% YoY and indirect tax revenue increasing by 11% YoY.
- Going forward tax revenue increase may be on the cards in light of introduction of various policies to widen the tax base introduced in the Finance Bill 2018. Measures undertaken that focus specifically on widening of the tax base include:

1. Non-filers are banned from purchasing vehicles (new locally manufactured and new/used imported).
2. 1% tax on purchase of property for non-filers.
3. Non-filers are banned from purchasing property worth over PKR 5mn.
4. Advance tax of 1% from filers and 3% from non-filers to be collected from credit/debit cards holders conducting transaction abroad.

Exhibit: Budget Deficit for 1QFY19 Settled at PKR 542bn



Source: MoF, AHL Research

IMF Program

Essential for Economic Discipline

- Negotiations with the IMF are underway for a bailout package and after a successful agreement, the approval will be taken to the Board of the IMF, where the US has a 16% voting right. Currently, bilateral relations between Pakistan and US have a room for improvement, and it seems that the conditions for Pakistan's entry into the IMF program are contingent upon that. Nevertheless, Pakistan's focus should be to convince the IMF on homegrown reforms agenda and reduce external dependence.

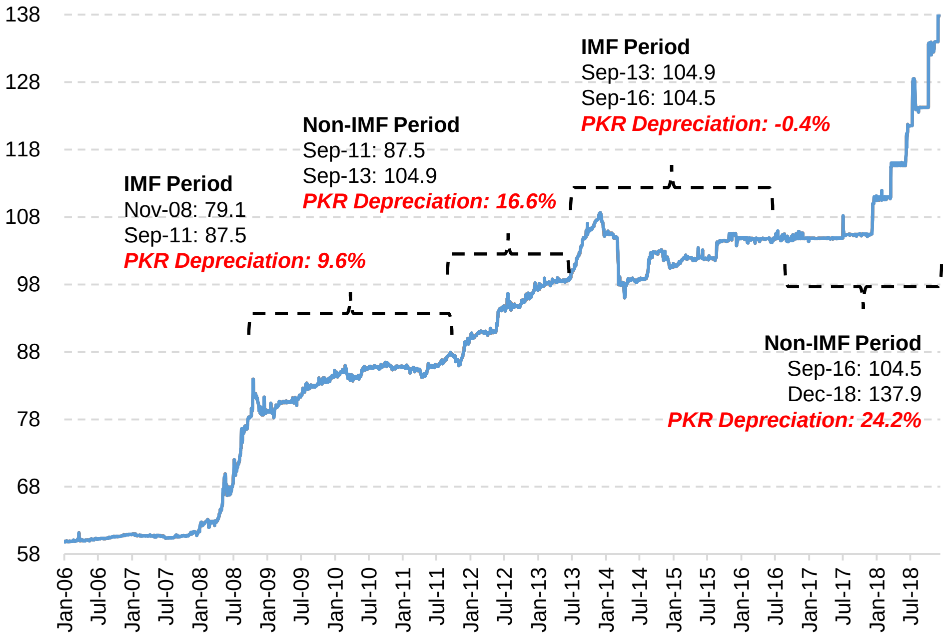
Benefits of entry into the IMF program

- Confidence of all stakeholders including other multilateral institutions like ADB, World Bank, and other capital markets - for Sukuk and Eurobond issuance - and direct investors (interested in investing in Pakistan).
- MoF estimates the cost of borrowing via Sukuk and Eurobonds will reduce by 1-1.5ppts if Pakistan enters into an IMF program.

Challenging steps demanded by the IMF

- Free float of PKR vs. USD implying additional devaluation of 5-7% and 100-150bps increase in interest rates.
- Complete cost recovery from customers for utility bills like gas and electric (this could be achieved via reduction in line losses and UFG however, this would take a long time and prices would have to be increased until then).
    - Pakistan's electricity and gas tariffs are already higher than other regional countries thereby affecting the competitiveness of exports as well as import substitution industry. To recall the gov't has already raised gas tariffs by 33% and approved an electricity tariff hike of 12%, while exempting export-oriented industries from the recent price increase.
- Lower Fiscal Deficit, higher revenues via increase in indirect taxation such as through increase in GST to 18%.
- Minimization of losses from SOEs either through reform or privatization.
- Broadening of tax base.

Exhibit: Currency Depreciation Under IMF and Non-IMF Period



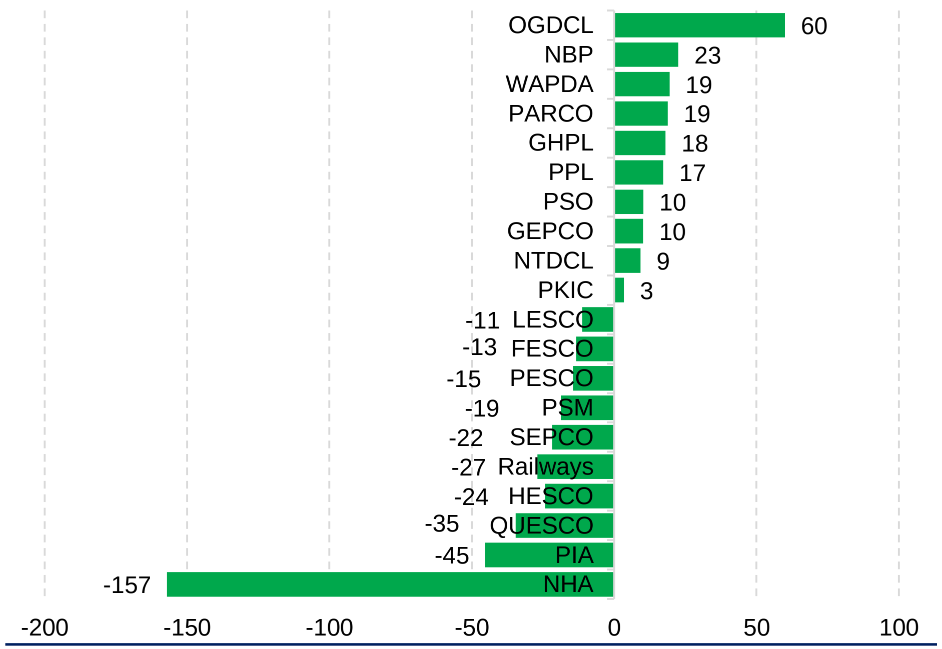
Source: IMF, SBP, AHL Research

Ailing SOEs

An Economic Agony

- The government intends to take concrete steps to control the infamous bleeding of Public Sector Enterprises. As per Federal Foot Print - SOE Annual Report issued by Implementation and Economic Reforms Unit, Ministry of Finance, the total loss incurred by top 10 loss making SOEs is a whopping PKR 224bn for FY16 (Latest available statistics). Only the loss incurred by NHA during FY16 is PKR 157bn, which is not included in this estimate.
- Since the government's accounting methodology is based on cash accounting, it is important to note that on a consolidated basis, the loss in these entities is not being reported in the fiscal deficit. However, once the need for financing arises, the burden falls on the budget.
- In addition, it is noteworthy that companies earning a profit do not have a 100% payout ratio. However, the entities incurring losses do need support to the extent of their losses or sometimes even more. Therefore, the prominent loss making entities do need infusion of cash to the extent of their losses. That said, similar amount of cash flow is not available from profitable companies.
- Other than PIA and NHA, majority of the loss making entities are DISCOS operating in the power sector. The higher losses incurred by DISCOS during 2016 were due to delay in implementation of tariff as a result of a court order.
- As per news reports, the government has decided to establish a company called Sarmaya-e-Pakistan (as per PTI's manifesto document) to take management control of all these entities and improve management of these companies in order to curtail losses and manage these entities on commercial basis. IMF and other multilateral lenders have been insisting on the reform of these SOEs during previous programs too.

Exhibit: Top Ten Profit and Loss Making SoE (FY16)



Source: MoF, AHL Research

Power Generation

RFO being replaced by RLNG and Coal

- Total Power Generation during 4MFY19 is up by 6% YoY. During Aug'18, Pakistan's power generation touched a record high of 14,017 GWh (average generation of 18,840 MW), which was up by 10% YoY compared to previous highest generation of 12,754 Gwh (average generation of 17,142 MW).
- During 4MFY19 Coal based power generation has increased by 166% YoY to 5,345 GWh, while generation on FO has reduced by 58% to 4,707 GWh. The share in power generation on FO has reduced from 24% during 4MFY18 to 9% during 4MFY19.
- Total saving in fuel cost by generating power on RLNG and coal during this tenure is approximately USD 367mn. This does not include the impact of increase in economic output due to availability of power generation, nor does it include the impact on demand of other fuels like HSD.
- Going forward, with the induction of Engro's Thar Power Plant (EPTL 660 MW), Hubco's Coal Power Plant (CPHGL 1320 MW) and Punjab Thermal Power Limited (1263 MW RLNG fired) during 2019, Pakistan's electricity grid's reliance is expected to reduce on expensive fuels like FO and HSD. This shift in power consumption should also bode well for our trade deficit as import of FO will see a likely contraction going forward.

Exhibit: Source Wise Generation

GWh	4MFY19	4MFY18	YoY
Hydel	15,039	14,625	2.8%
RLNG	11,600	5,703	103.4%
Coal	5,345	2,012	165.7%
FO	4,707	11,197	-58.0%
Nuclear	2,934	2,993	-2.0%
Wind	1,305	656	99.0%
Others	8,965	9,731	-7.9%
Total	**49,894**	**46,917**	**6.3%**

Source: NEPRA, AHL Research

Stabilization Measures

Government has been Proactive

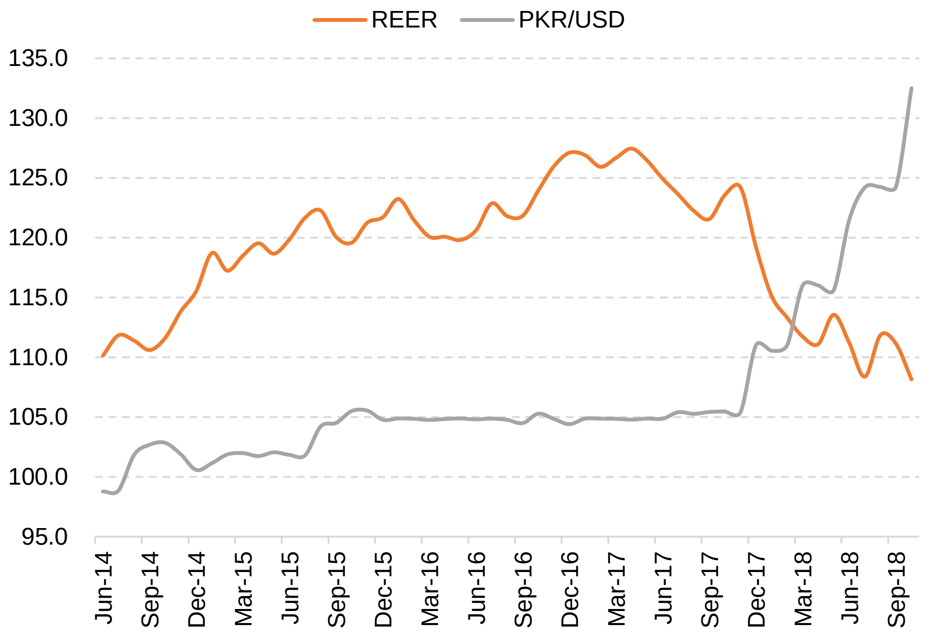
- **Inflationary pressure → Interest Rate hikes:** To curb the rising inflationary pressure, the SBP has raised the policy rate by a cumulative 425bps throughout CY18. Inflation for FY18 remained benign around 3.92%, and has increased to 6.02% during 5MFY19. The SBP expects inflation to remain between 6.5% - 7.5% in FY19 as a result of higher oil prices (+49% during 4MFY19 of USD 76.97/bbl vs USD 51.8/bbl for 4MFY18) and a lagged impact of depreciation of PKR against USD (PKR has depreciated by ~32% since Dec'17).

- **Reserves depletion / External imbalances → Currency depreciation:** The PKR has witnessed a significant depreciation throughout CY18 – almost 20% in CY18TD. The SBP has allowed this depreciation of the currency in order to incentivize exports alongside put a lid on the swelling imports thereby protecting further depletion of reserves. As a consequence of continuous PKR depreciation and controls imposed by the Central Bank on import payments, imports for the month of Sep'18 remained at USD 4.4bn, which is an 18-month low despite higher oil prices (up by 43% YoY in Sep'18 vs. Sep'17).

- **Accretion of circular debt → Increase in gas / electricity tariffs:** The government has increased prices of gas by 33% while electricity rate hike has been approved at 12% (NEPRA notification awaited). The objective of increase in the prices of gas is to reduce the deficit primarily created by Prior Year Adjustments, on sale of gas by PKR 94 billion. Similarly, the deficit on sale of electricity is approx. PKR 420bn, primarily due to increase in capacity payments on the back of induction of new power plants. The reduction in fuel cost for generating electricity has been more than offset by increase in capacity payments. Prior Year Adjustments once again played a major role in creating the deficit in the electricity sector. Therefore, increase in the prices of both sources of energy is expected to reduce the accretion of circular debt which has reached PKR 1.3trn.

- **Export competitiveness → Supply of gas and electricity to exporters on concessionary pricing:** With an intention to restore the export competitiveness of Pakistan, the government has decided to supply gas and electricity to exporters of five zero rated sectors at concessionary rates. The government has prescribed a price of USD 6.5/mmbtu for gas along with a priority allocation and is expected to fix a price of USd 7.5/kWh for electricity.

Exhibit: Real Effective Exchange Rate Vs Market Rate



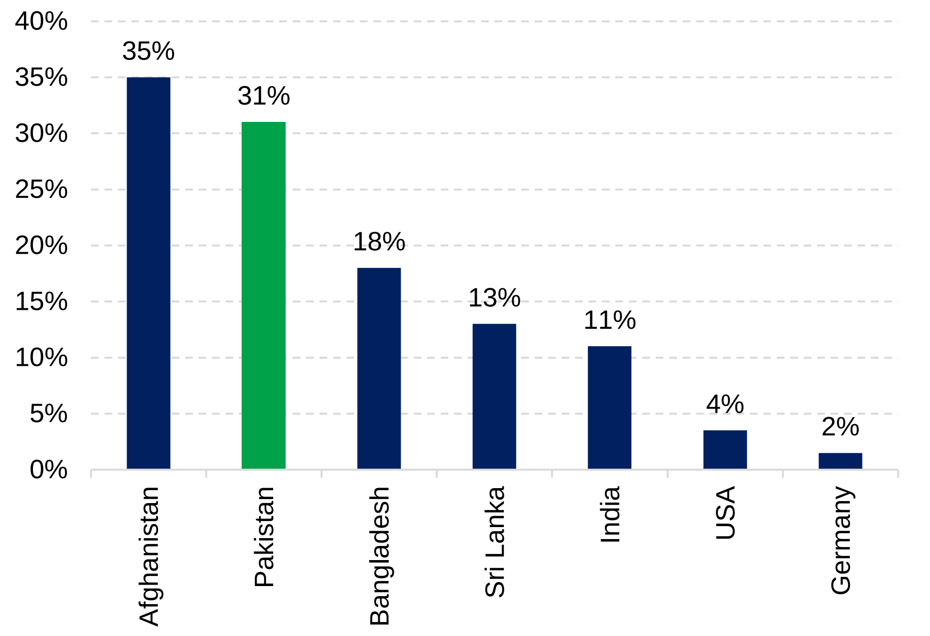
Source: SBP, AHL Research

Stabilization Measures

Government has been Proactive

- **Housing shortage → PM Housing Scheme:** According to World Bank studies, Pakistan faces a shortfall of 10mn housing units, which is increasing by 0.6mn units annually. The government intends to reduce this gap and has embarked upon an ambitious plan to build 5mn low cost housing units. The government's task includes building a policy framework along with improvement in legislation to incentivize private sector builders to participate in this initiative accompanied by improvement in land records (digitization) and utilization of government's land to break urban land monopoly. Mortgage financing in Pakistan stands very low at 0.5% of GDP compared to 3% in Bangladesh and 7.7% in India on account of: 1) Low contract enforcement and, 2) Uncertainty of title deeds which restrict banks to take exposure in the housing sector. If the government is able to dilute the impediments to construction of low cost housing in Pakistan and initiate the process, it would be a long term positive for many local industries including but not limited to steel and cement.
- **External Financing Gap → IMF Negotiations underway + Assistance from friendly countries:** According to our estimates, the FY19 Current Account deficit is expected to be restricted to USD 10bn coupled with Debt servicing of USD 11bn. Cumulatively the gross external financing requirement clocks-in at around USD 21bn. IMF is expected to finance part of this requirement while the remaining amount is expected to be contributed by friendly countries including China, UAE and Saudi Arabia. Saudi Arabia has already pledged to provide USD 3bn immediate deposit to support Pakistan's reserves, while an additional USD 3bn worth of oil deferred payments facility has been provided. Support from China and UAE is also expected,

Exhibit: Housing Shortage (percent share of total population)



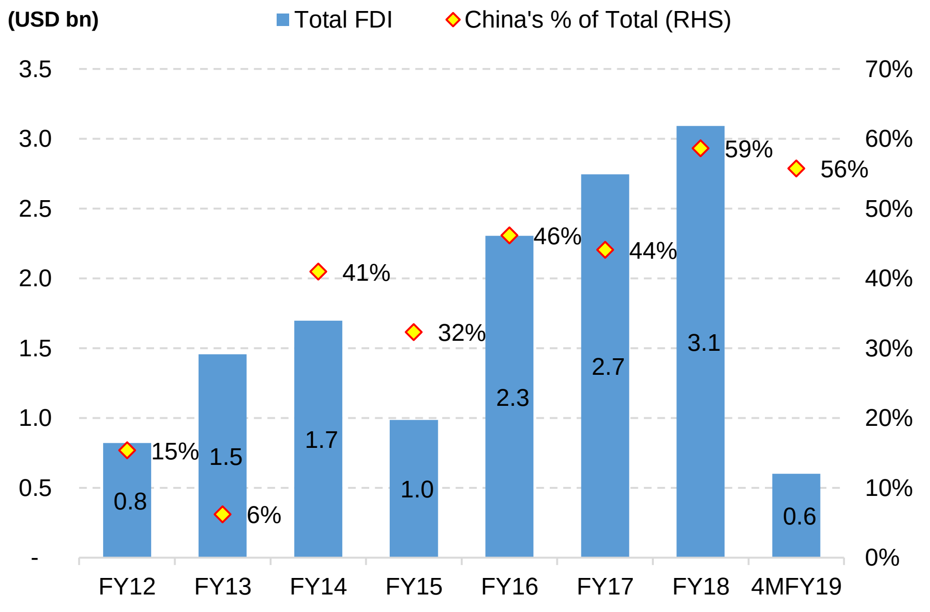
Source: World Bank, NLIHC

AHL View

Further Measures needed for Economic Revival

- Broaden tax base by i) enhancing documentation of the economy, and ii) imposition of tax on agriculture and recovery of the same from wholesale and retail trade.
- Reduce losses in State Owned Enterprises through reform and restrict government's role in business by divestment from government owned entities.
- Increase value added exports by providing inputs at competitive prices and improve labor productivity via provision of vocational training.
- Support import substitution industries.
- Encourage remittances through formal banking channels.
- Check abuse of Afghan Transit Trade, renegotiate Free Trade Agreements as well as control under invoicing of imports and exports to protect local industry.
- Attract foreign investment in exporting industries via establishment of Special Economic Zones.
- Further improve energy mix towards low cost energy and reduce the basket price of electricity via focusing on indigenous sources of energy like Thar Coal, wind and solar power.
- Control Transmission and Distribution (T&D) losses for electricity and Unaccounted For Gas (UFG) losses for gas distribution companies to reduce the cost of gas and electricity.
- Improve Ease of Doing Business, whereby undue regulations and delays have put Pakistan at 147th rank, compared with 100th rank of India and 111th rank of Sri Lanka..

Exhibit: Historical Foreign Direct Investment



Source: SBP, AHL Research

Pakistan Economy

Key Economic Indicators

Exhibit: Key Indicators

	FY12A	FY13A	FY14A	FY15A	FY16A	FY17A	FY18A	FY19E	FY20F
Real									
GDP	3.8%	3.7%	4.0%	4.2%	4.7%	5.3%	5.8%	4.0%	4.5%
GDP (USD bn)	224.0	231.0	244.0	271.0	279.0	305.0	312.6	281.6	285.5
Prices									
CPI (% YoY)	11.00%	7.40%	8.60%	4.60%	2.90%	4.15%	3.95%	7.95%	7.18%
Discount Rate - Period end	12.00%	9.50%	10.00%	7.00%	6.25%	6.25%	7.00%	11.50%	11.50%
External Sector (USD bn)									
Exports	24.7	24.8	25.1	22.9	22.0	21.7	24.8	26.2	28.8
Imports	40.5	40.2	41.8	41.3	41.2	48.5	56.0	54.0	52.0
Trade Deficit	15.8	15.4	16.7	18.4	19.2	26.8	31.2	27.8	23.2
Remittances	13.2	13.9	15.8	18.7	19.9	19.3	19.6	22.2	23.3
FX Reserves (Period End)	15.3	11.0	14.1	18.7	23.1	21.4	16.4	16.5	19.0
Exchange Rate (Period End)	94.6	99.7	98.8	101.8	104.8	104.9	121.5	147.0	152.9
PKR Depreciation (%)	10.0	5.4	(0.9)	3.1	2.9	0.1	15.9	21.0	4.0
(% of GDP)									
Current Account Deficit	2.1%	1.1%	1.2%	1.0%	1.7%	4.0%	6.1%	3.6%	2.5%
Trade Deficit	7.1%	6.7%	6.8%	6.8%	6.9%	8.8%	10.0%	9.9%	8.1%
Fiscal Deficit	6.6%	8.0%	5.5%	5.3%	4.6%	5.8%	6.6%	5.0%	4.5%
External Debt	30.9%	27.0%	25.6%	24.2%	26.6%	27.4%	33.7%	36.2%	39.2%
Domestic Debt	38.1%	42.5%	43.3%	44.4%	46.9%	46.5%	47.7%	60.1%	66.3%

Source: SBP, PBS, AHL Research

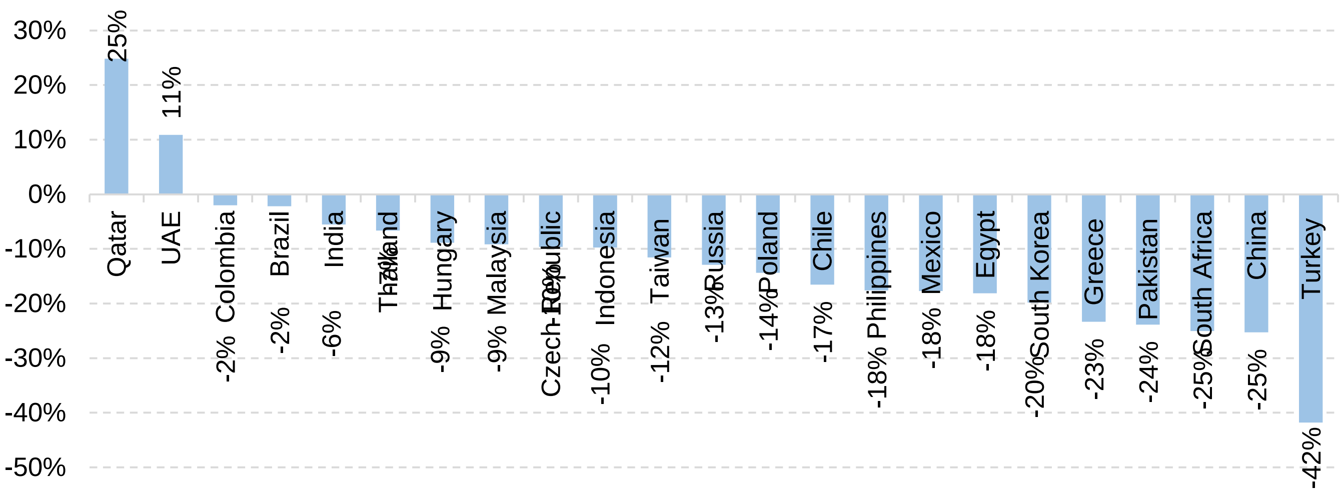
Capital Markets

Market Strategy

2018 – All Bourses Hate Uncertainty

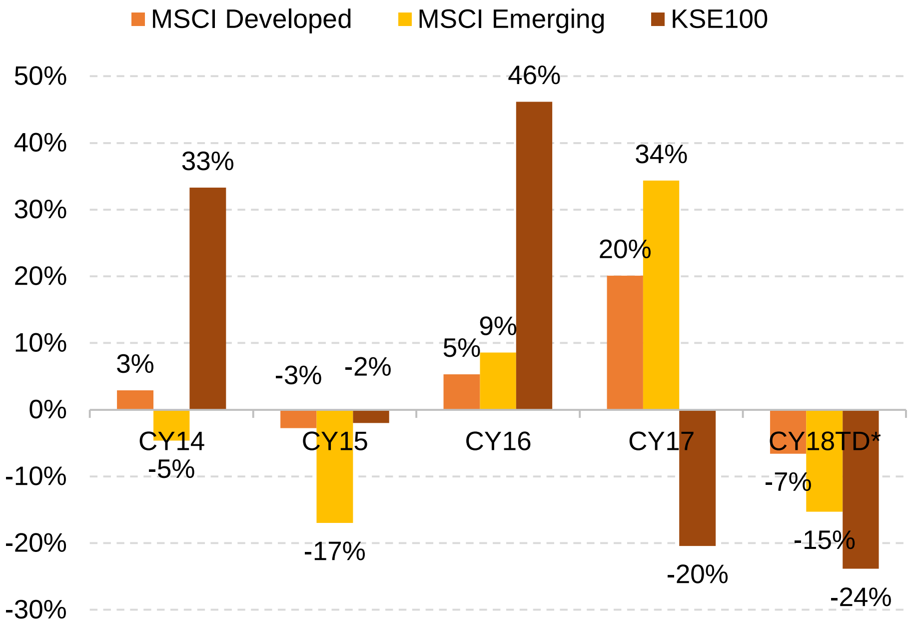
- 2018 remained full of turbulence as the KSE-100 index posted a negative return of 24% in CY18TD which is well below the last 10 years' average positive return of 24%. Despite continuous earnings growth of the corporate sector, KSE-100 index has not been able to maintain its growth trajectory due to political uncertainty, volatility in business dynamics and slowdown in economic growth. In the beginning of CY18, investors were confident of the smooth political transition as general elections were expected in 2HCY18 but things turned around due to worsening macroeconomic conditions on account of persistent fiscal and current account deficit and bleeding of foreign exchange reserves.
- On the other hand, in order to control fiscal imbalances, monetary tightening was required, where the State Bank of Pakistan adopted a proactive stance and cumulatively increased policy rate by 425bps from 5.75% to 10.0% in CY18 along with letting the rupee devalue to maintain the country's foreign exchange reserves. Likewise, MSCI EM index performance also displayed a negative return of 15% compared to positive return of 34% in CY17.

Exhibit: MSCI Emerging Countries Performance



Source: Bloomberg, AHL Research

Exhibit: KSE-100 Relative Performance with MSCI



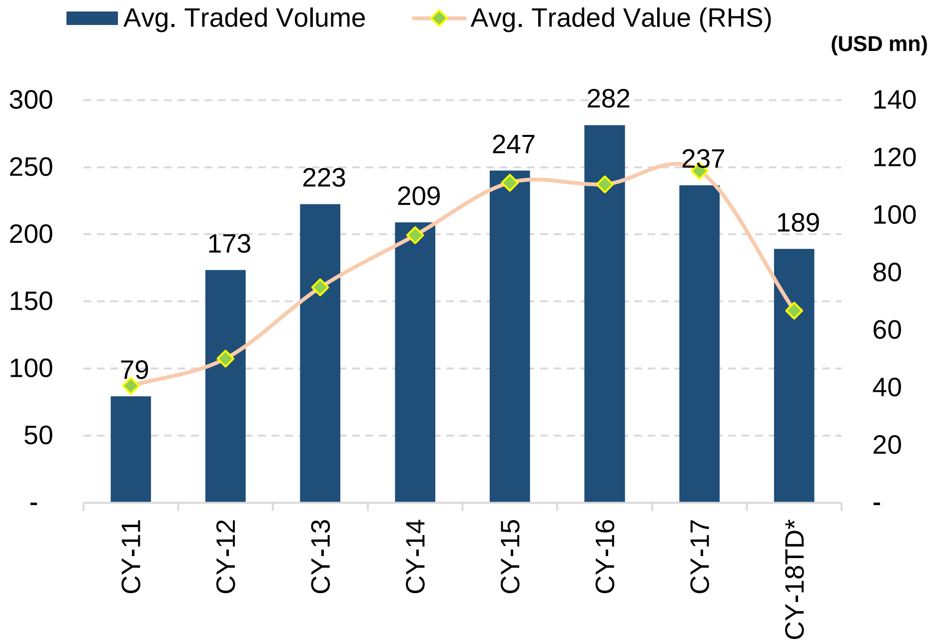
Source: Bloomberg, MSCI, AHL Research, *07-Dec-2018
USD based Returns

Equities: Sluggish Trading

Traded Value Declined by 42% YoY

- **Five-year low average volume and value:** As a consequence of bearish sentiments dominating the current year, average volumes dropped to five year low to settle at 190mn shares, down by 20% YoY compared to CY17 average volumes of 237mn shares. Likewise, average value traded plunged by 42% YoY to USD 67mn (this level was last observed in CY13) compared to USD 115mn in CY17. The decline in average traded value and volumes was as a result of i) lack of investors' confidence amid political uncertainty (election year and new government settling in), ii) rupee devaluation resulting in foreign selling, and iii) economic challenges for new political setup. This year volumes registered a high of 461mn shares on 29th Oct'18 - highest volumes since MSCI emerging market inclusion on 24th May'17 of 607mn shares. On the other hand, this year the market witnessed its lowest volumes at 57mn shares on 17th May'18.
- **Sectors-wise volume details:** Sectors that attracted major volumes during the year were Chemicals, Commercial Banks, Cements, Technology & Communication, and Power Generation, registering average volumes of 25.9mn, 21.8mn, 21.6mn, 16.7mn and 10.8mn, respectively. Whereas on a scrip-wise basis, volumes were led by BOP (9.52mn), LOTCHEM (8.97mn) and KEL (8.64mn).
- **Index Contribution:** Laggards dominating the trend of contributions to the index included Cements (515pts, 39% of total decline) followed by Automobile Assemblers (437pts, 33% of total decline), Food and Personnel Care Products (326pts, 25% of total decline), Engineering (299pts, 23% of total decline), Insurance (147pts, 11% of total decline), and Pharmaceuticals (142pts, 11% of total decline). Meanwhile, scrip wise top contributions to the downside were by HBL (449pts, 34% of total decline) and UBL (354pts, 27% of total decline) primarily attributable to earnings' hit owing to: i) HBL's higher admin expenses (on account of business transformation and compliance program), and ii) UBL's significant one-off pension cost of PKR 8.8bn and gargantuan provisioning expenses primarily on overseas loan book. Scrip wise positive contributors were i. FFC (300 pts), ii. BAHL (293 pts), iii. ENGRO (282 pts), iv. EFERT (204 pts), and v. BAFL (172 pts).

Exhibit: Traded Value Declined by 42% YoY



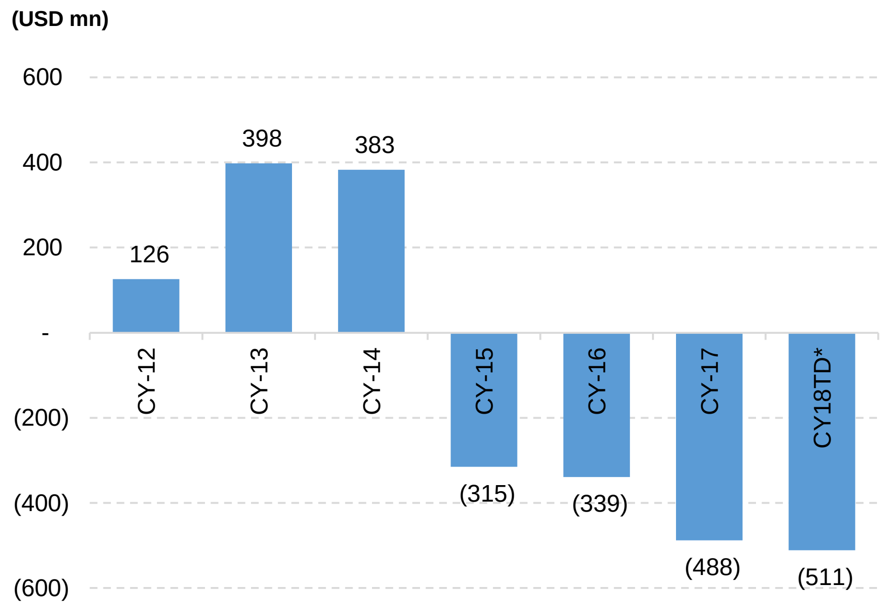
Source: PSX, AHL Research, *07-Dec-2018

2018: Foreign Portfolio Investment

Highest Ever Foreign Selling during CY18

- **Pakistani market witnessed worst foreign outflow in a decade:** Foreign investors marked their fourth straight year of selling shares as we witnessed net sell during CY18TD, which expanded to USD 511mn compared to USD 488mn in CY17. Divestment by foreigners was engrossed by Insurance Companies, Individuals and Companies worth USD 300mn, USD 129mn and USD 90mn, respectively. During first six months, foreign selling clocked-in at USD 133mn while majority of the selling was observed in second half on the back of sharp currency movement, economic challenges and MSCI's relocation of blue chips (LUCK and UBL) to small cap index resulting in major outflow.
- **Sector-wise offloading:** Major foreign selling was witnessed in i. Commercial Banks (USD 259mn) given decline in profitability of large banks due to pension cost, higher admin costs and higher provisioning, ii. Exploration and Production (USD 139mn) primarily due to rupee devaluation, iii. Cements (USD 72mn) amid surge in international coal prices and inability to increase cement prices, iv. Power Generation and Distribution (USD 34mn), and v. Textile (USD 26mn).
- **Japan witnessed significant capital outflow in Asia-Pac Region:** Asian markets bore the brunt as foreign investors continuously pulled out their capital from Asia-Pac region due to external developments such as interest rates hike by US Fed reflecting higher yields on Treasury bills, and trade war of US with other countries. The data of Asia-Pac region reveals that major outflows were witnessed in Japan, Taiwan, Thailand, South Korea and India at USD 44,350mn, USD 11,234mn and USD 8,694mn, USD 5,538mn and USD 4,249mn, respectively. While imitating the same trend, Pakistan also noticed total outflows of USD 511mn. However, China and Vietnam remains the country in the list which managed to attract massive foreign inflows of USD 7,868mn (till Sep'18) and USD 1,866mn, respectively.
- **Outlook:** The wait for PKR depreciation is largely over as local currency has depreciated by 20% in CYTD to PKR 139/USD. We expect foreign investors to start accumulating shares as the KSE-100 index is currently trading at an attractive PE of 7.6x (2019) compared to regional (Asia-Pac) average of 17.1x, while offering DY of ~7.6% versus~2.2% offered by the region.

Exhibit: Highest Ever Foreign Divestment during CY18



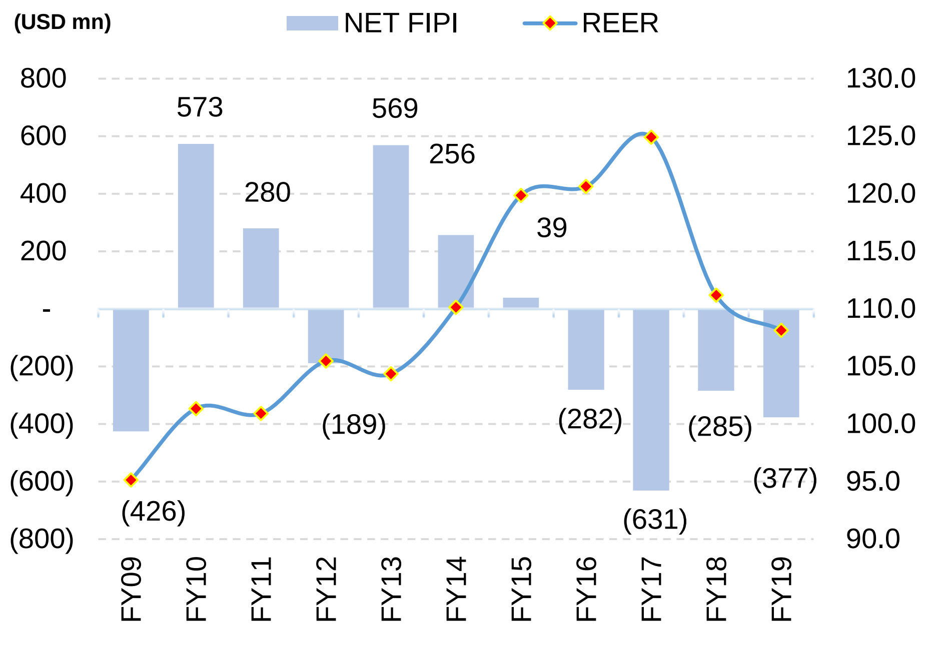
Source: NCCPL, AHL Research, *07-Dec-2018

Market Strategy

Rectification of Overvalued PKR to lure FIPI

- The Pakistani Rupee remained significantly overvalued in terms of REER (Real Effective Exchange Rate) from 2014 till 2018 (between 110-124).
- The real effective exchange rate (REER) is the weighted average of a country's currency in relation to an index or basket of other major currencies, adjusted for the effects of inflation.
- Only recently, the currency experienced significant adjustment (20.1% in CYTD) resulting in reduction of REER to 108 by end of Oct'18. After the most recent devaluation on November 30, 2018 from PKR 134/USD to PKR 139/USD, we estimate that the REER has come down to 105.
- Therefore, majority of the overvaluation of the PKR has been corrected thereby expected to instill confidence in foreign investors. We expect the Pakistani Rupee to reach PKR 147/USD by Jun'19.
- We believe Pakistan will receive foreign portfolio investment after witnessing outflows for past 3 years.
- Period ending statistics are being used for REER, therefore FY19TD is still showing net sell. This is due to the fact that the currency is adjusted at the later part of the period.

Exhibit: REER vs FIPI



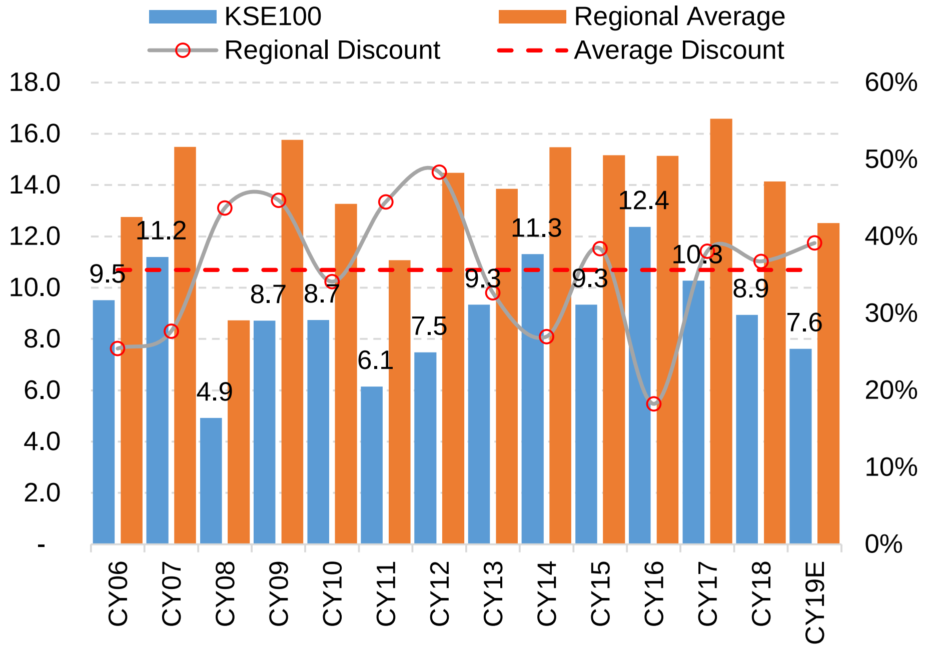
Source: SBP, NCCPL, AHL Research, FY19 data is till 07-Dec-2018

Market Strategy

BoP Sustainability to increase investors' confidence

- Pakistan's high Current Account deficit (USD 18bn or 6.1% of GDP) was the primary reason behind investors skepticism towards performance of the domestic equity bourse. With the needed adjustment in the currency along with other steps like incentives for exporters along with imposition of regulatory duties on imports, the CAD for FY19 is expected to come down to USD 10bn – a reduction of 44% YoY (4.0% of GDP).
- Weakness in Balance of Payments was behind the shortcoming in other macro indicators like higher inflation, higher interest rates and PKR depreciation. We believe monthly CAD from Jan'19 will reduce to around USD 600mn, which will be positive for the market. Financing this deficit through a combination of FDI and additional borrowings should not be a concern.
- Agreement with the IMF and receipt of funds from friendly countries (including China, UAE and Saudi Arabia) should be positive for the market sentiment.
- **Attractive Valuations:** PSX is presently trading at 2019 PE of 7.6x, which is lower than the average PE's of last 7 years. We contend that despite increase in interest rates (leading to higher risk free rate) the valuations and macro outlook are favorably compared with 2012 when GDP growth was lower and inflation was higher. In addition, the equity market can perform well due to clarity on the political front, which wasn't there in the past 2 years (since Panama leaks).

Exhibit: Regional Discount to Peers



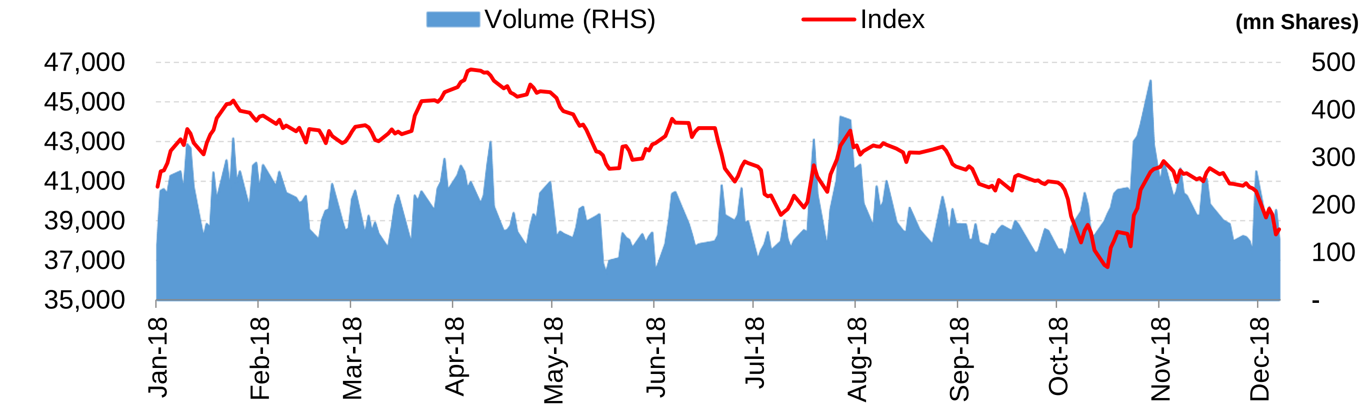
Source: Bloomberg, AHL Research

Market Strategy

Earnings Growth

- **E&Ps to Lead Earnings Growth:** During 2018, earnings growth arrived at 8.6% led by 28% growth in the E&P Sector on the back of 19% higher oil prices. The heavy weight banking sector is expected to show a negative growth of 3.8% primarily as a consequence of drastic reduction in large banks' profitability. The cement sector has witnessed a decline of 3.6% amid initiation of price war amongst cement companies and their inability to completely pass on the impact of higher coal prices (+47% YoY) resulting in lower gross margins (down by 785bps).
- We project an uptick in earnings of KSE-100 to a 5 year high of 15.2% in 2019 on account of 35.9% uptick in E&Ps and 32% uptick in Banks, which are two of the highest weighted sectors in the PSX (weight of 15.1% and 25.2%, respectively). Our growth estimates for E&Ps is premised on the assumption of higher dollar parity (PKR 147/USD end Jun'19) along with assumption of Arab Light oil prices at an average of USD 65/barrel in FY19. Whereas, higher profitability of the banking sector is expected due to realization of lagged impact of 425bps increase in policy rate during CY18.
- Corporate earnings are expected to increase by 15.2%, which is a 5-yr high, on the back of growth in profitability of the E&P sector, owing to 17% average PKR depreciation and 4.5% higher oil price (USD 65/bbl for FY19 compared to USD 62.2/bbl in FY18).

Exhibit: KSE100 Index Performance



Source: PSX, AHL Research

Exhibit: Corporate Sector Earnings Growth: Trend & Forecast

(%)	2013	2014	2015	2016	2017	5-Y Avg.	2018E	2019F
E&P	-3.2	31.6	-29.4	-33.3	30.7	-0.7	27.8	35.9
Banks	3.5	29.2	15.0	-3.4	-8.5	7.2	-3.8	32.0
Textiles	98.1	-13.5	-8.7	23.3	-1.8	19.5	-1.3	28.8
Fertilizer	43.8	0.4	78.3	-41.0	3.2	17.0	28.2	19.5
Power	16.7	-7.4	29.4	3.7	0.0	8.5	9.3	17.0
Steel	31.7	270.0	-33.3	321.7	126.0	143.2	26.3	10.5
OMCs	-43.1	166.3	-55.1	127.2	65.4	52.1	-11.3	-3.5
Chemicals	4.5	-12.2	38.4	69.1	27.2	25.4	38.6	-9.5
Autos	16.0	12.6	120.7	-1.4	37.4	37.1	9.7	-27.7
Cement	82.0	16.6	15.6	20.3	-2.7	26.3	-3.6	-32.4
KSE100	**12.0**	**20.9**	**6.5**	**-3.8**	**7.6**	**8.6**	**6.7**	**15.2**

Source: Company Financials, AHL Research

Market Strategy

KSE-100 index expected to cross 47,000 by Dec'19

- **47,000 Index is targeted for Dec'19:** KSE-100 Index is expected to cross 47,000 points by Dec'19. We have used earnings growth methodology to calculate returns.
- **Balance of Payments Sustainability to increase investor confidence:** Uncertainty regarding Balance of Payments and Foreign Currency Reserves is one of the major reasons for lagging performance in prior year of KSE-100. Lower Current Account Deficit (USD 600mn monthly from Jan'19 onwards) along with arrangement of funds from IMF and friendly countries including China, UAE and Saudi Arabia are expected to brighten investor mood.
- **Rectification of overvalued currency to lure Foreign Portfolio Investment:** The Pakistani Rupee remained significantly overvalued in terms of REER (Real Effective Exchange Rate) from 2014 till 2018 (between 110-124). After the most recent devaluation on November 30, 2018 from PKR 134/USD to PKR 139/USD, we estimate that the REER has come down to 105. Historical data suggests that FIPI has been positive in years when REER was below 100 and FIPI outflow has been witnessed during years when PKR was overvalued using REER.
- **Market Trading at a discount to Historical and Regional PE multiples:** KSE-100 index is trading at a 2019 PE of 7.6x, which is lower than 7-year average PE of 10.3x and the lowest in any of the past 7 years, showing significant room for growth. Historical data suggests that the market had sustained higher PE's in unfavorable macroeconomic conditions in 2013-2014 era. At present, the market vis-à-vis the region, is trading at a 39% discount compared to historical average of 36%.
- **Market is trading at attractive multiples despite better macros:** KSE-100 Index is trading at 7.6x 2019 earnings despite having higher GDP growth of 4% compared to 2012, while the major economic problem of the Current Account Deficit is expected to improve significantly in 2019.
- **Pakistan largest ever private sector IPO in expected to be launched in 2019:** Interloop which is the largest socks manufacturer outside China, intends to issue 109mn shares at a floor price of PKR 45/share to generate PKR 4.9bn in order to establish a hosiery division and set up a new denim plant. This signals the importance of the stock exchange as a preferred choice for raising capital in the country.

Exhibit: KSE100 Vs Key Macros

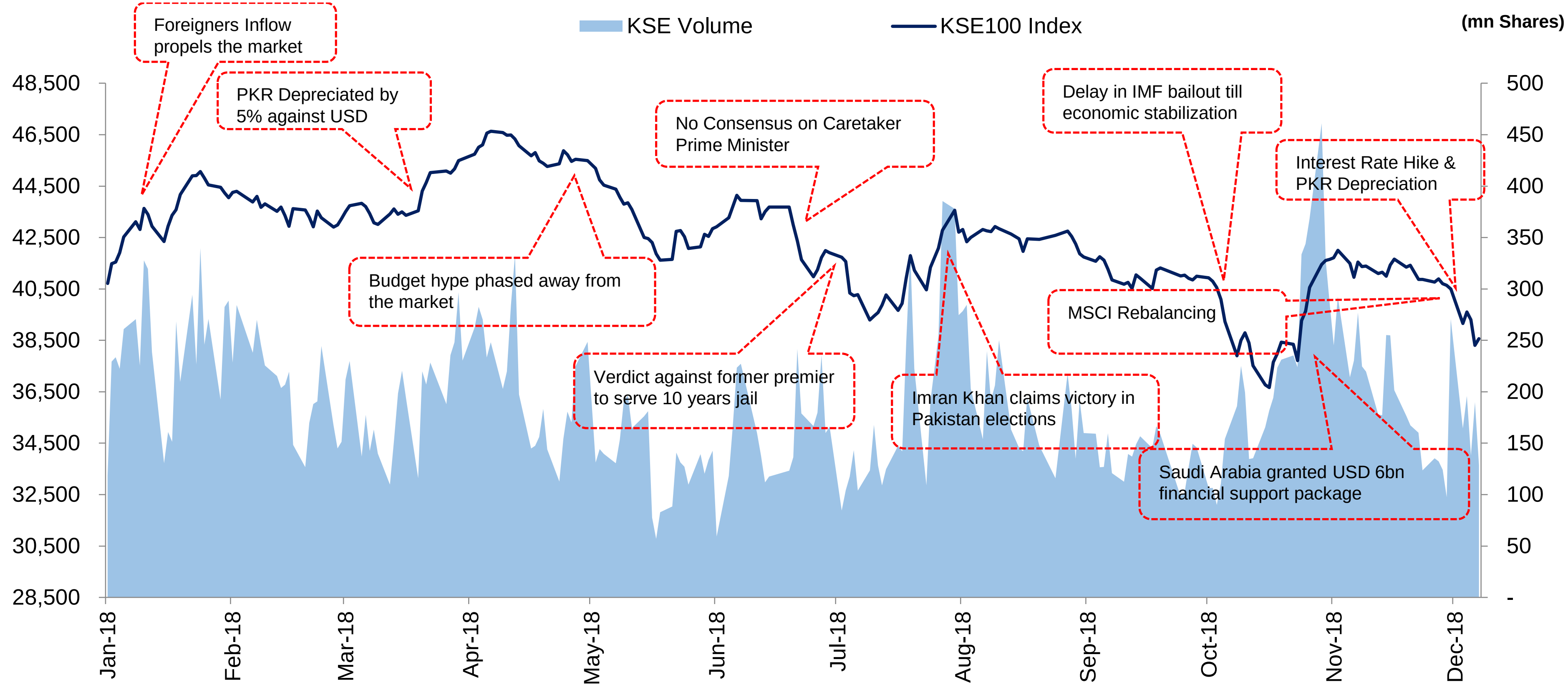
Year	P/E	DR	EGrow	GDPg	C/A*	Fis. Def.*	Fx Res.	CPI
	x	%	%	%	%	%	USD bn	%
2012	7.5	11.2	15.6	3.8	-2.1	6.6	15.3	9.7
2013	9.3	9.5	12.0	3.7	-1.1	8.0	11.0	7.7
2014	11.3	9.9	20.9	4.1	-1.2	5.5	14.1	7.2
2015	9.3	7.3	6.5	4.1	-1.0	5.3	18.7	2.5
2016	12.4	6.3	-3.8	4.5	-1.7	4.6	23.1	3.8
2017	10.3	6.3	7.6	5.3	-4.0	5.8	21.4	4.1
2018	8.9	7.7	6.7	5.8	-6.1	6.6	16.4	5.0
2019	7.6	11.5	15.2	4.0	-2.9	6.0	16.5	8.0

Source: SBP, PBS, MoF, AHL Research, * % of GDP

Market Strategy

KSE-100 Index Performance (CY18TD)

Exhibit: KSE100 Index Performance



Source: PSX, AHL Research

Equity Market Offerings

Increase expected due to numerous factors

- **PKR 236bn raised during past 5 years:** Over the past decade, IPOs (Initial Public Offerings) , SPOs (Secondary Public Offerings) and SEOs (Secondary Equity Offerings) remained a major source of fund raising and capital formation for companies. Over the past decade, PKR 255bn has been raised from the market, while more importantly, PKR 236bn has been raised during past five years.
- **Government has been the biggest beneficiary:** Government has been the biggest beneficiary of these offerings as it has raised PKR 170bn through 4 SPOs including UBL, HBL, ABL and PPL, which is approx. 67% of the total proceeds.
- **Increase in IPOs and SPOs expected during 2019:** The amount of SPOs and IPOs are expected to increase during 2019 due to the following reasons : -
    - 2018 was an election year, and therefore political uncertainty was prevalent. With elections being peacefully concluded and smooth democratic transition taking place along with settling in of the new government, 2019 is expected to be stable year in terms of political environment.
    - Higher interest rates are expected to encourage issuers to go for equity offering as cost of debt has increased significantly as a result of higher discount rate (hike of 425bps during CY18). On the other hand, valuations will drop as a result of higher return on debt, which is an alternate investment avenue for investors.
    - Textile sector is expected to offer more IPOs as it benefits from government's focus on exports, PKR devaluation (20% in CYTD), fiscal incentives and concessionary energy pricing (gas and electricity).
    - Although the textile sector has access to low cost financing in terms of LTFF (Long term Financing Facility) and EFS (Export Financing Scheme) for capacity expansion and working capital, respectively, not all kinds of expenditures (like cost of construction, machinery erection, commissioning etc.) are covered in those schemes.
    - As the market is also expected to post a healthy run during 2019 on the back of improving macros and political stability, companies are expected to resume/initiate IPOs.
    - We expect eight to ten IPOs during 2019 in Steel, Power, Transport and Logistic, Auto Parts, Pharma, Food and IT sectors.

Exhibit: Equity Market Offering

Year	No. of IPO/SPO/SEO	Amount (PKR bn)
2008	9	5.8
2009	3	1.5
2010	6	6.3
2011	4	3.1
2012	3	1.5
2013	1	0.8
2014	8	74.9
2015	8	116.8
2016	5	23.8
2017	5	9.0
2018	5	11.7
Total	**57**	**255.3**

Source: PSX, AHL Research

Sectors

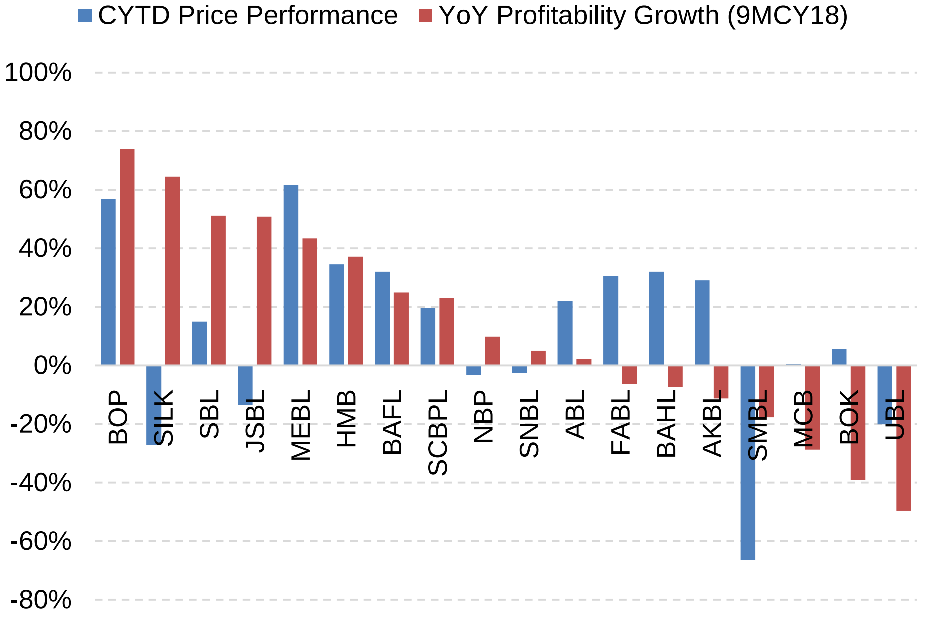
Commercial Banks

Rate Hike Era – Stimulant For Earnings

Key Investment Theme:

- **NIMs to inflect:** Net Interest Margins (NIMs) of the sector have been under pressure lately owing to maturity of high yielding PIBs as well as compressing spreads. Spreads have contracted from an average of ~6% in CY14 to 4.9% during CY18TD, while NIMs have declined from an average of ~4.1% in CY14 to ~3.3% currently. Going forward, banks' NIMs are likely to inflect on the heels of higher rates on lending and improving spreads. AHL universe NIMS are expected to settle at an average of 4.5% during CY19-CY23.
- **Deposit Mobilization:** Banking sector deposit growth has recently seen a meltdown, witnessing 9% YoY growth during 9MCY18, and 10.9% YoY growth during CY17 tracking lower M2 growth (M2 growth for Sep'18 was 11% YoY as a result of negative Net Foreign Assets). The growth rates compare rather unfavourably to average deposit growth rates of 13.6% during high interest rates era (CY08-CY12). Going forward, with the expected normalization of Pakistan's Balance of Payments situation, we project an uptick of deposit mobilization to an average of 12% during CY19-CY23.
- **Increasing ADR:** Banks have been increasing their exposure towards advances as the ADR of the sector currently stands at 57.5% vis-à-vis last 5-Yr average of 48%. Increasing ADR bodes well for sector earnings as banks will benefit from higher rates on lending and better spreads. However, we do highlight that higher interest rates can also culminate in a lending squeeze (with a lagged impact) because of which we have a relatively conservative outlook on advances growth growing forward (5-Yr CAGR of 9.8%).
- **Investment yields to support earnings:** Investment yields of banks have faced a downturn as high yielding PIB's have matured. According to SBP data, yields currently stand at ~6.25% declining from an average of ~8% during CY14-17. Moreover, investment in PIB's declined by 17.6% YoY during 1HCY18 as opposed to a 7% decline YoY during 1HCY17. Investment books are shifting in favour of short-term securities to benefit from the rate hike (T-Bills investment have portrayed a 4.2% YoY during 1HCY18). We expect the interest rate hike cycle to halt during CY19 which is when banks are likely to mobilize funds towards PIB's, and investment yields will depict an uptick. Banking sector IDR currently stands at 61% as of 1HCY18 vs. 67% in SPLY, but has seen a rise on a sequential basis (1QCY18: 54%).

Exhibit: Profitability & Price Performance



Source: Company Financials, AHL Research

Commercial Banks

Rate Hike Era – The Stimulant

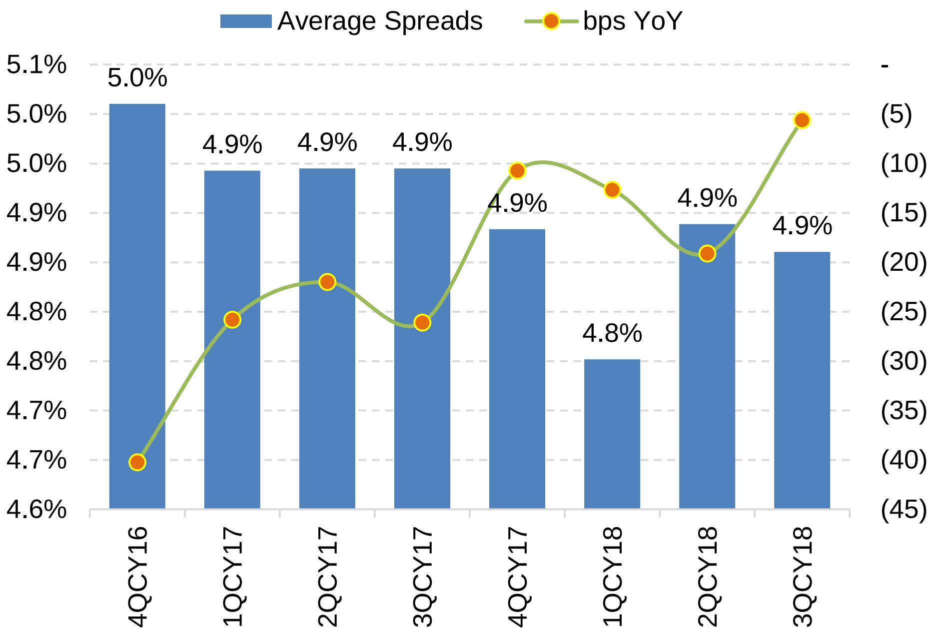
Key Investment Theme:

- **KSE-100 Profitability Review:** Profitability of the banking sector has shown a 21% QoQ decline, whilst declining by 10% YoY during 9MCY18, with HBL NY settlement payment and large banks' pension costs adjusted. The decline in profitability comes on account of hefty provisioning expenses booked primarily by UBL / NBP, drastic OPEX uptick faced by HBL (on account of NY branch related expenditure and ongoing business transformation program), and significantly lower capital gains overall (72% QoQ / 52% YoY during 9MCY18). NII of the sector declined 1.7% on a QoQ basis due to a lagged impact of interest rates hike on banks' NIMs primarily due to the re-pricing lag between loans and deposits. To recall, the SBP had raised the policy rate to 8.5% (+275bps during 9MCY18) at the end of Sep'18. That said, NII increased 7.3% YoY during 9MCY18 as the SBP began the rate hikes in Jan'18. NFI contraction continues (-22% QoQ / -10% YoY during 9MCY18) as the sector suffers from low capital gains (maturities of PIBs and poor equity market performance) which witnessed 72% QoQ and 52% YoY decline during the said period. Dividend income of banks also remained lackluster declining 19% QoQ and 15% YoY.

Key Risks:

- Higher interest rates coupled with a slower than expected economic slowdown can cause a lending squeeze
- Higher interest rates might result in unrealized losses on banks' PIB portfolio
- Aggressive NPL accretion can result from the high rate era
- Regulatory concerns for large banks can dent lending capacity

Exhibit: Banking Sector Spread



Source: SBP, AHL Research

Bank of Punjab

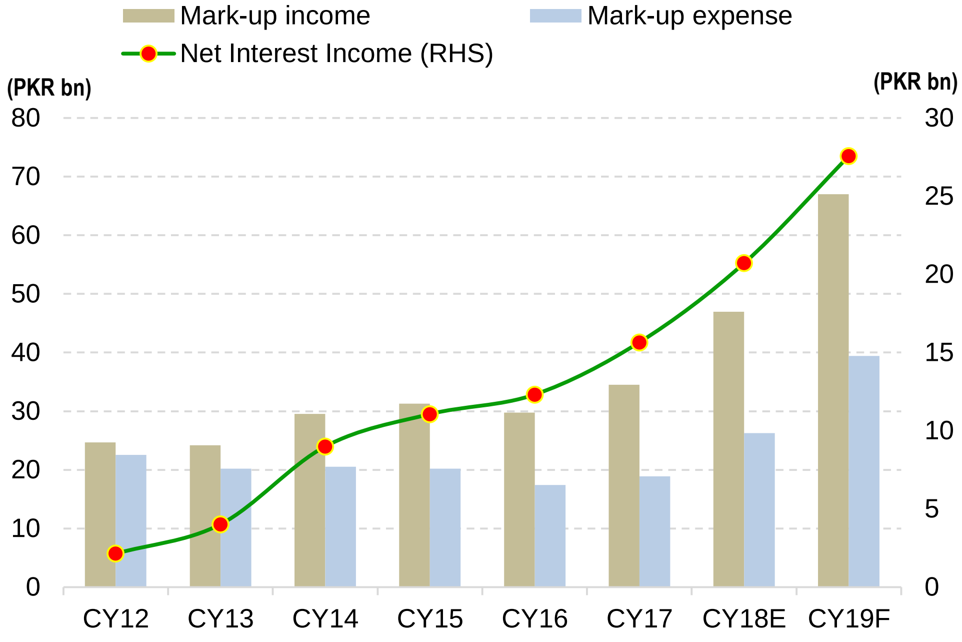
Ready To Soar High

Target Price	PKR	18.3
Market Price	PKR	12.9
Upside	%	41.6
PSX Code		BOP

Key Investment Theme:

- **NII - The Forte:** BOP's NII tale tells a phenomenal growth story, portraying a staggering 5 Yr CAGR of ~49% during CY12-CY17. The growth in NII is the highest amongst the KSE-100 listed banking sector, with peer banks averaging a CAGR of 11% and large banks averaging a CAGR of ~7%, in the said period. BOP's mark-up income has grown at a 5Yr CAGR of 7% while, more importantly, its mark-up expense has declined at a 5Yr CAGR of 3%. With barely any PIBs on its book, the bank stands afoot to benefit significantly from the rates hike. We project NII to depict a healthy growth of 17% (5-Yr CAGR).
- **Low cost deposit profile:** Aggressive accumulation of low cost deposits over the years has contributed to the glorious NII acceleration. Cost of deposits of the bank have shrunk from 7.4% in CY12 to 3.4% in CY17, despite healthy deposit accumulation - 5-Yr CAGR of 16%. Current accounts of the bank grew at a healthy 5-Yr CAGR of 24% with the proportion rising from 18% in CY12 to 26% in CY17. That said, we project costs to settle at an average of 5.3% during CY18-CY20F as interest rates are on the rise. Moreover, strength of the bank's deposit portfolio is also sourced from a consistent shedding off of expensive deposits. The bank's fixed deposits proportion has reduced from 42% in CY12 to 30% currently. We forecast the trend to continue to benefit from rising rates, and reduce its expensive deposits portfolio to an average 29% during CY18-CY20F.
- **Un-provided NPLs show drastic reduction:** The bank's coverage ratio has increased from 38% in CY12 to 88% in CY17 (the bank booked provisioning of PKR 12bn in 4QCY17). Un-provided NPLs reduced from PKR 43bn in CY12 to a mere PKR 6.5bn in CY17, with un-provided NPLs as a proportion of equity reducing from a gargantuan 348% in CY12 to 22% in CY17. Going forward, we expect advances to grow at a modest 5-Yr CAGR of 10% with infection to settle at an average of 10.7% during CY19-CY23. We have a conservative outlook on advances growth given we expect a lending squeeze because of rising rates.

Exhibit: The NII Growth Story



Source: Company Financials, AHL Research

Key Risks:

- Unusual NPL accretion is a poignant downside risk to our valuations.
- Exposure to textile sector (18.8% as at CY17 vis-a-vis 4% for the banking sector) does not bode well for asset quality going forward.

Bank of Punjab

Ready To Soar High

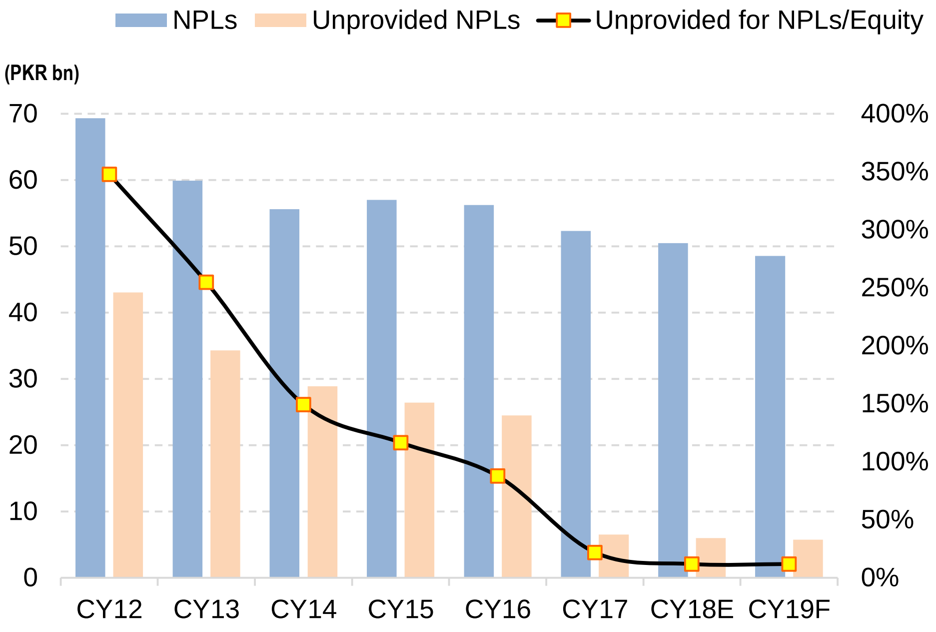
PKR mn	2017A	2018E	2019F
Income Statement			
Mark-up Income	15,655	20,720	27,572
Non-Mark-up Income	4,604	3,213	3,742
Total Income	20,258	23,932	31,314
OPEX	10,731	12,542	14,437
Post Tax Profit	(3,384)	7,528	10,185
Balance Sheet			
Advances	295,841	382,970	419,179
Deposits	242,488	238,275	261,833
Investments	556,192	635,196	716,004
Borrowings	38,949	38,112	42,960
Total Equity TIER - II	29,840	37,294	47,410
Revaluation Surplus	2,886	2,813	2,744

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/share	(1.7)	2.8	3.9
Dividend	PKR/share	-	-	-
Price to Earning	x	(5.0)	4.5	3.4
Price to Book	x	0.7	0.9	0.7
NIMs	%	3.0	3.4	4.1
ROE	%	(13.3)	24.7	25.9
ROA	%	(0.6)	1.1	1.3

Source: Company Financials, AHL Research

Exhibit: Reduction in Unprovided NPLs



Source: Company Financials, AHL Research

Bank Alfalah

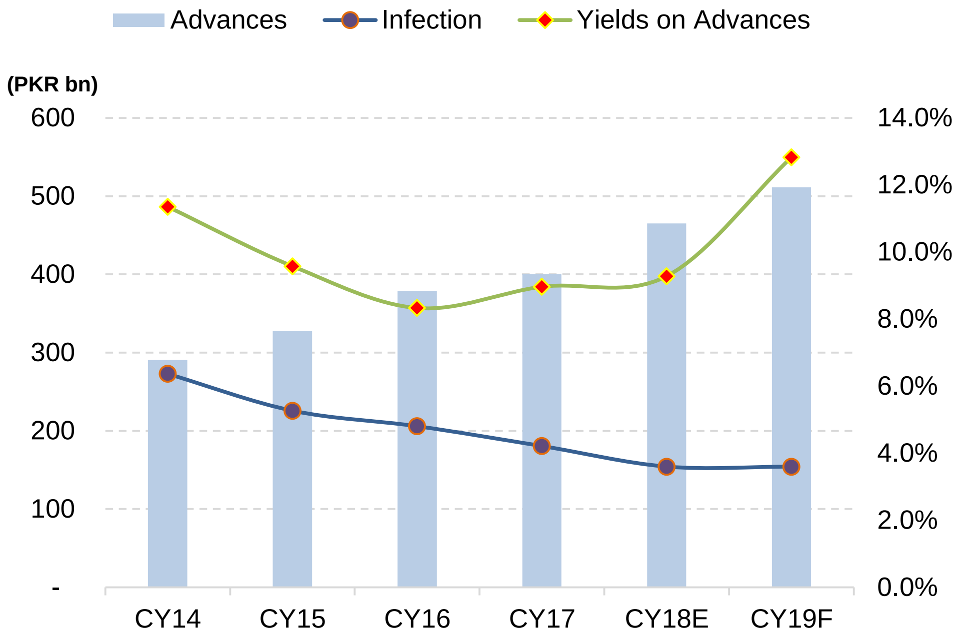
The Mid-Tier Star

Target Price	PKR	60.1
Market Price	PKR	48.6
Upside	%	23.5
PSX Code		BAFL

Key Investment Theme:

- **Well Placed in the Rising Rates Era:** BAFL's fundamentals place it well in the rising interest rate scenario making it a core beneficiary. The bank's PIB portfolio has reduced to PKR 64bn (7.1% of assets) compared to PKR 140bn at the end of CY17 (14% of assets). AHL universe average PIB/assets ratio stands at 11.4% as at 9MCY18. Furthermore, the bank's current account ratio stands at a concrete 43% at present, which is likely to keep it relatively shielded from the impact of rising rates on cost of deposits. BAFL's mighty ADR of 72% compared to average of ~55% of the sector (second only to FABL in the KSE-100 listed banking space) further cements BAFL's position as a key beneficiary of the rising rates era.
- **Supreme Asset Quality:** BAFL's loan book has portrayed an uptick of 19% YoY during 9MCY18, which is marginally lower than industry advances growth of 22% during the same period. The encouraging aspect of the bank's loan book is its stellar asset quality, whereby infection stands at 3.5% (lowest in the AHL banking universe) and coverage stands 93.3% (above universe average of 92%). We have a conservative outlook on infection ratio as interest rates uptick may dent credit profile of borrowers. We project infection to average out at 4% over the next 5 years. As of 3QCY18, 48% of BAFL's advances portfolio is constituted by the corporate segment while only 6% is contributed by consumer loans – which presents an encouraging omen for asset quality going forward.
- **Strong Deposit Profile:** Rising interest scenario coupled with a healthy current account base will propel the bank's NIMs upward. As of 3QCY18, the bank's NIMs have clocked-in at 3.9% whereas the last 5 years have seen NIMs hovering around 3.7%. Going forward, we project NIMs to touch an average of 4.7% during CY19-CY21, which is above AHL universe average of 4.3%. A strong current account proportion will help shield the bank's cost of deposits from the higher interest rates. The bank's current account proportion has increased from 36% in CY14 to 43% as of 9MCY18. We expect the ratio to climb up to an average of ~45% over the next three years.

Exhibit: Yields on advances to increase



Source: Company Financials, AHL Research

Key Risks:

- Lower than expected rate hike.
- Aggressive NPL accretion which can dent asset quality.

Bank Alfalah

The Mid-Tier Star

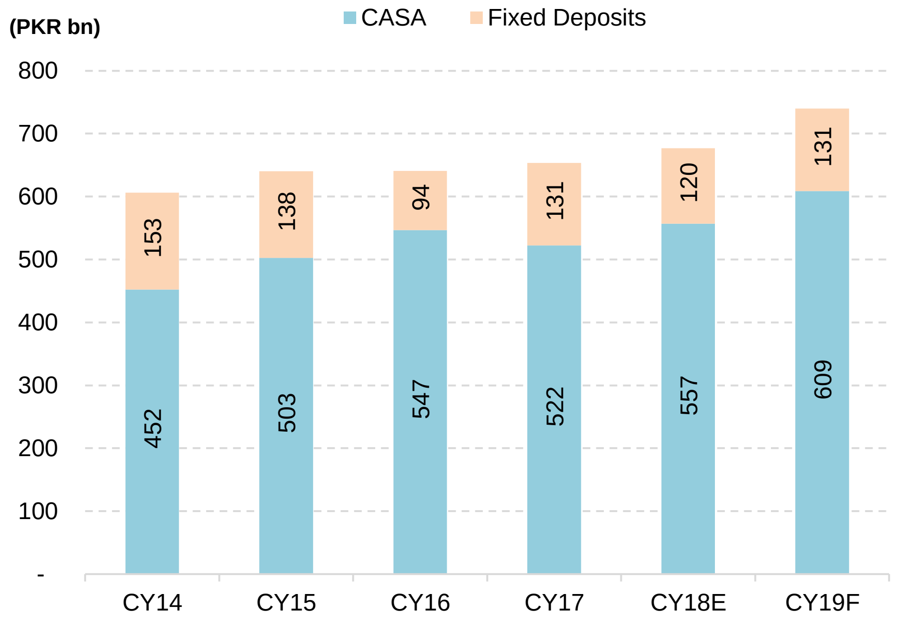
PKR mn	2017A	2018E	2019F
Income Statement			
Mark-up Income	29,288	31,572	41,629
Non-Mark-up Income	10,580	11,310	12,421
Total Income	39,868	42,882	54,050
OPEX	25,717	24,589	28,224
Post Tax Profit	8,515	12,024	16,298
Balance Sheet			
Advances	400,660	464,976	511,473
Deposits	653,346	683,526	747,134
Investments	401,742	313,224	341,848
Borrowings	206,567	136,705	164,370
Total Equity TIER - II	66,830	78,666	90,833
Revaluation Surplus	7,280	6,850	6,850

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings (new no. of shares)	PKR/Share	4.8	6.8	9.2
Dividend	PKR/Share	1.5	2.0	2.8
Price to Earning	x	8.9	7.2	5.4
Price to Book	x	1.1	1.1	1.0
NIMs	%	3.5	3.8	4.9
ROE	%	13.3	16.5	19.2
ROA	%	0.9	1.2	1.6

Source: Company Financials, AHL Research

Exhibit: Low cost deposit profile



Source: Company Financials, AHL Research

United Bank Limited

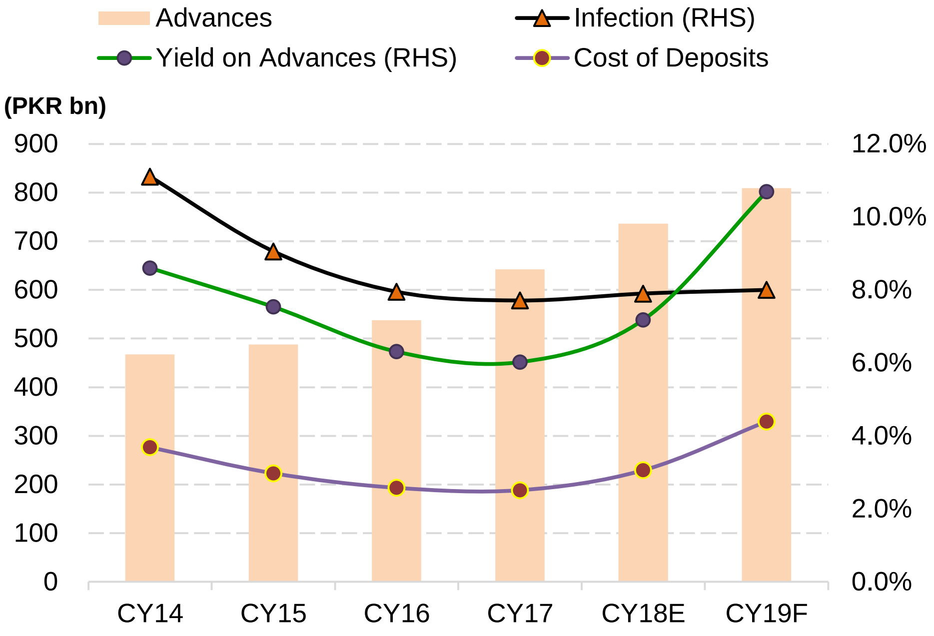
A Solid Valuation Play

Target Price	PKR	170.8
Market Price	PKR	140.0
Upside	%	22.0
PSX Code		UBL

Key Investment Theme:

- **Enticing Valuation:** UBL's stock price has faced a severe hammering this year, portraying a sharp contraction of almost 20% in CY18TD. The bank currently trades at a P/B of 1.1x, which is at a 38% discount to its last 5 year average of 1.5x. Moreover, the bank's current multiple is at a 12% discount to our exit multiple of 1.12x. On a trailing basis, the bank is operating at a current ROE of 13.4% (pension cost adjusted) compared to CY17 ROE of 15.7%. We project average ROE of the bank to clock-in at 20% for the next five years, led by ADR and strengthening deposit profile.
- **Cleaning up of the book:** The bank has been suffering from a very fragile situation of its international book, as NPLs on the overseas book have seen a drastic uptick of 52% YoY during 9MCY18 (domestic NPLs have contracted by 3% during the same period). The bank has booked heavy provisioning expenses throughout the year (PKR 7.5bn for 9M) to build up its coverage against these loans. Coverage on the international book has improved from 59% at the start of the year to 74% currently, while NPLs have been provided for very adequately on the domestic book – at 91% at present which is flattish compared to start of the year. The bank has been on a mission of contracting its international balance sheet: as at 9MCY18, international deposits (USD) have declined by 16% CY18TD while advances have also suppressed by 16% during same period. We expect provisioning charges to decline 26% YoY and settle at PKR 7.4n during CY19 compared to PKR 10bn in CY18.
- **Asset Quality:** An encouraging omen for the bank's asset quality going forward is found in the bank's advances composition as at 9MCY18 whereby we see that the portfolio is dominated by the Power & Energy sector (29%), which boasts a stellar asset quality in the banking sector of 2.9% (according to SBP data for 1HCY18). In addition to this, the infamous textile sector which suffers a dismal infection of 18.9%, contributes only 10% to UBL's loan book. Going forward, we do expect NPL accretion of the bank due to rising rates but we do not foresee a very aggressive pile-up of NPL stock for the bank. We expect infection to settle at an average of 8.1% during CY19-CY21.

Exhibit: Advances growth and rising yields to counter rising costs



Source: Company Financials, AHL Research

Key Risks:

- Fine/penalty on overseas operations (UBL has voluntarily liquidated its NY branch).
- Further regulatory hurdles after being designated as a DSIB may curtail payout ratios. CET-1 requirement for the bank increased by 1.5% after being designated as a DSIB.

United Bank Limited

A Solid Valuation Play

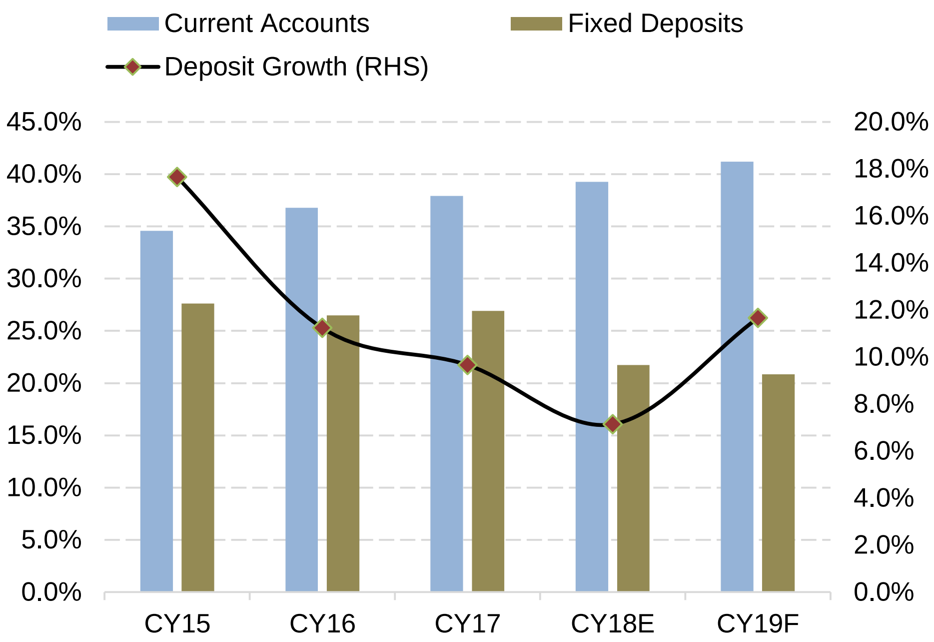
PKR mn	2017A	2018E	2019F
Income Statement			
Mark-up Income	58,092	58,233	68,757
Non-Mark-up Income	24,296	24,778	23,762
Total Income	82,848	83,769	93,428
OPEX	38,941	42,316	45,387
Post Tax Profit	26,197	13,178	25,538
Balance Sheet			
Advances	642,507	736,167	809,334
Deposits	1,366,158	1,463,713	1,634,356
Investments	1,124,921	876,492	895,292
Borrowings	517,082	278,105	212,466
Total Equity TIER - II	174,735	174,867	186,420
Revaluation Surplus	33,828	31,850	31,267

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	21.4	10.7	20.6
Dividend	PKR/Share	13.0	9.6	11.3
Price to Earning	x	8.8	13.8	7.2
Price to Book	x	1.3	1.0	1.0
NIMs	%	3.4	3.1	3.7
ROE	%	15.5	7.5	14.0
ROA	%	1.4	0.6	1.3

Source: Company Financials, AHL Research

Exhibit: Growth in Current Accounts



Source: Company Financials, AHL Research

Habib Bank Limited

Struggling For Glory

Target Price	PKR	155.2
Market Price	PKR	132.5
Upside	%	17.1
PSX Code		HBL

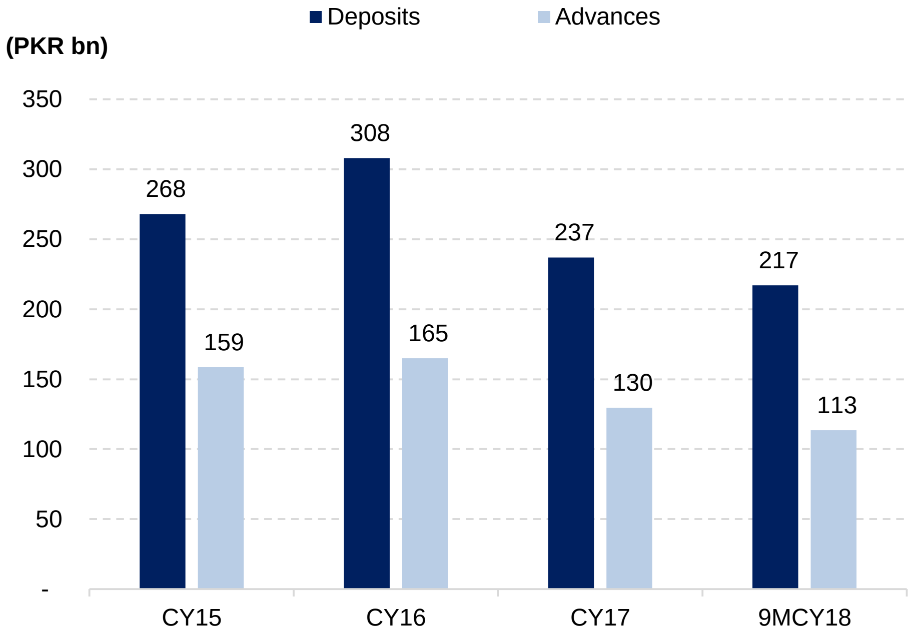
Key Investment Theme:

- **Beefing up of CAR:** In the aftermath of the NY fiasco (PKR 23.7bn settlement), HBL faced the daunting task of strengthening up its capital base, which it has done so remarkably well. As of 9MCY18, HBL's CAR stands at a mighty 17% compared to 16% at the start of the year, whereas Tier 1 CAR has settled at 12.7% compared to 12% at the start of the year. Strengthening of CAR has been through a concerted effort of de-risking of operations, efforts to get corporate borrowers rated and reducing international exposure, all of which has likely diluted risk weighted assets. HBL also beefed up its Tier II capital through a revaluation of fixed assets worth ~PKR 10bn. HBL has been curtailing its under-stress international operations: overseas loan book has contracted 22% CYTD while international deposits have shrunk 11% CYTD.
- **Room for loan growth:** Development of a concrete capital base will create room for loan book expansion of the bank. We expect loan growth of the bank to settle at a 5-Yr CAGR of ~11%. A nominal exposure to individuals (9%) and textiles (8%) is likely to keep infection in check in the rising rates scenario. International NPLs once again depicted an uptick of 5% QoQ / 31% YoY. Albeit domestic NPLs have decreased 8% YoY. International NPLs are provided for at a healthy coverage of 80% currently, while domestic NPL coverage ratio is at 88%. Overall infection for the bank has settled at 7.6% as of 9MCY18 compared to 8.2% as at CY17. Going forward, we expect infection to hover around an average of 8.1% during CY19-CY21.
- **OPEX to normalize 2HCY19 onwards:** During 9MCY18, PKR 2.5bn out of the OPEX is on account of business transformation program while remediation costs in NY contributed PKR 5.2bn. NY look-backs are expected to continue until the end of 1HCY19. These costs will continue into 1HCY19 but OPEX will start normalizing 2HCY19 onwards. The management said that about 70% of the business transformation program costs will be booked in CY18. We expect the bank's cost/income to come down to 70% in CY19 compared to 75% in CY18E. Initiatives for financial inclusion/digitization such as HBL Konnect, Farm Mobile App and Transaction & Employee Banking (TEB) are likely to help revive fee income which we expect to grow at 9% during CY19.

Key Risks:

- Further pressure on OPEX on account of business transformation program/NY look-backs

Exhibit: Curtailing International Operations



Source: Company Financials, AHL Research

Habib Bank Limited

Struggling For Glory

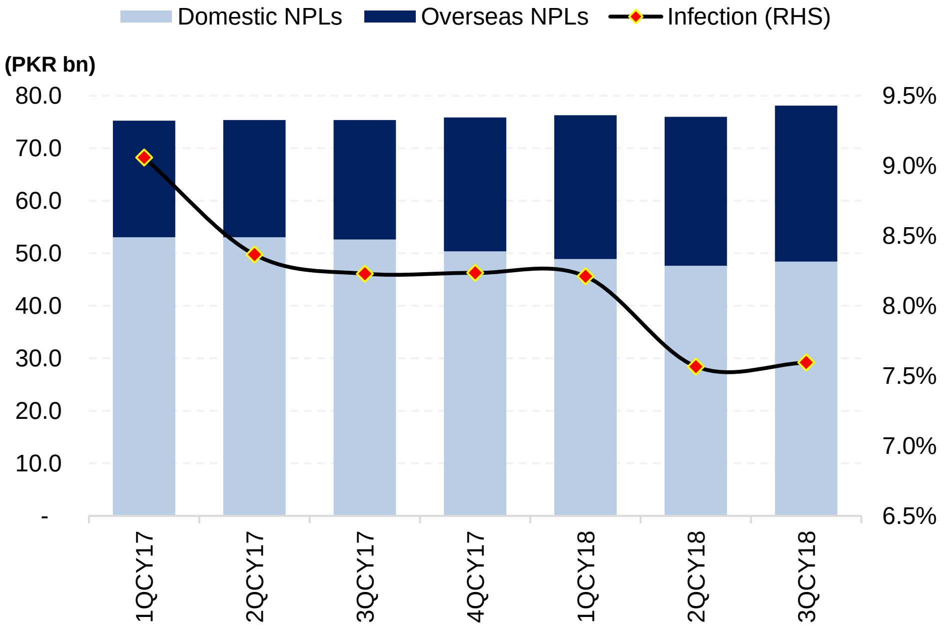
PKR mn	2017A	2018E	2019F
Income Statement			
Mark-up Income	83,067	81,662	108,916
Non-Mark-up Income	32,889	22,506	25,620
Total Income	115,957	104,168	134,537
OPEX	63,541	77,930	95,076
Post Tax Profit	7,829	13,948	24,276
Balance Sheet			
Advances	851,502	968,907	1,056,005
Deposits	1,998,935	2,209,378	2,490,448
Investments	1,374,808	1,301,410	1,467,241
Borrowings	397,803	265,125	323,758
Total Equity TIER - II	188,815	197,235	210,209
Revaluation Surplus	21,287	21,626	22,059

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	5.3	9.5	16.5
Dividend	PKR/Share	7.0	4.0	8.0
Price to Earning	x	31.3	13.9	8.0
Price to Book	x	1.3	1.0	0.9
NIMs	%	3.7	3.5	4.4
ROE	%	4.1	7.2	11.9
ROA	%	0.3	0.5	0.8

Source: Company Financials, AHL Research

Exhibit: Quarterly NPL trend



Source: Company Financials, AHL Research

Exploration & Production

Oil Price Fallout

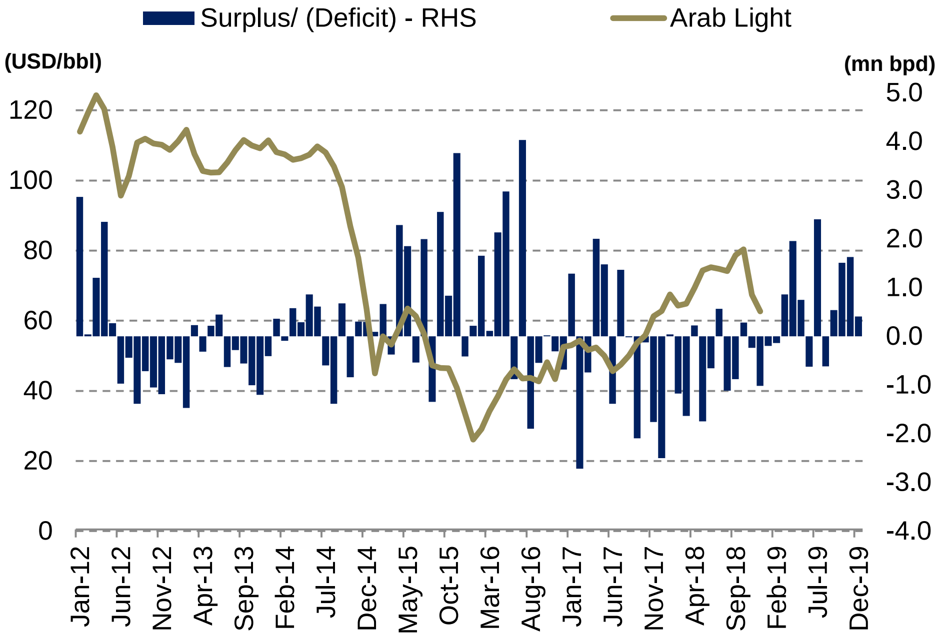
Key Investment Theme:

- **Bears in the Int'l oil market:** The prices of Brent and WTI plunged by 35.3% and 30.7% to USD 71.43/bbl and USD 65.07/bbl during CY18TD as global oil supply surged due to top-three producers including US, Russia and Saudi Arabia. Furthermore, after its annual meeting in Austria, the OPEC announced oil production cut of 1.2mn bopd. In this regard, OPEC members ex-Iran (as Iran has been exempted from production cut amid US sanctions) will cut oil production by 0.8mn barrels from production level of 39.75mn bopd while non-OPEC members will reduce production by 0.4mn bopd. Resultantly, prices of Brent and WTI recovered by 2.2% and 1.8%, respectively post conclusion of the meeting.
- **What can drive oil price?** We believe that int'l oil prices are dependent on many factors. However, there are four major elements which will influence oil prices significantly going forward: 1) Saudia Arab's production strategy coupled with Iran and Russia oil production, 2) Trade war 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 6% to 10.9mn bopd in 2018 as compared to 8.76mn bopd in 2014, and 4) Further interest rate hike in US which may be needed to curb the demand.
- **Demand Outlook**: In 2019, world oil demand growth is forecasted to grow by 1.29mn bopd YoY to reach 100.08mn bopd. The demand is expected to be lower as compared to initial estimates amid economic adjustments in the non-OECD region and uncertainties regarding the overall global economic development. Overall, the OECD demand is expected to rise by 0.2mn bopd, with OECD Americas expanding solidly, OECD Europe remaining in the positive and OECD Asia Pacific declining. In the non-OECD region, oil demand growth is expected to be around 1.04mn bopd, with improvements in Latin America and the Middle East from 2018 levels.
- **Oil Assumption for AHL E&P Universe**: In the wake of stability in oil prices, our oil price assumption is set at USD 58/bbl in reminder of FY19, and average USD 65/bbl in FY20 onwards.

Key Risks:

- The production cut by OPEC can quickly be neutralized by an increase in production by US shale oil.
- A slowdown in oil demand from major oil consuming economies.

Exhibit: World Oil Balance & Arab Light Price



Source: EIA, AHL Research

Exploration & Production

Oil Price Fallout

Key Investment Theme:

- **Trading at cheap valuations**: The AHL E&P sector is currently trading at PER of 6.8x based on FY19E earnings expectations compared with a PER of 7.6x of the KSE-100 Index and a five year historical PER of 9.5x of the sector. The profitability of our E&P universe is expected to surge by 32% YoY in FY19 amid higher average oil prices along with PKR depreciation.

- **Production and summary:** Oil production during FY18 witnessed an increase of 1% YoY to 32.6mn bbl from 32.3mn bbl in FY17. However, gas production depicted a drop of 1% YoY, settling at 3,997 mmcfd from 4,031 mmcfd in FY17. During FY19, we expect higher production from KPD, Tando AllahYar, Jhandial, Makori Deep, Mari and Kandhkot.

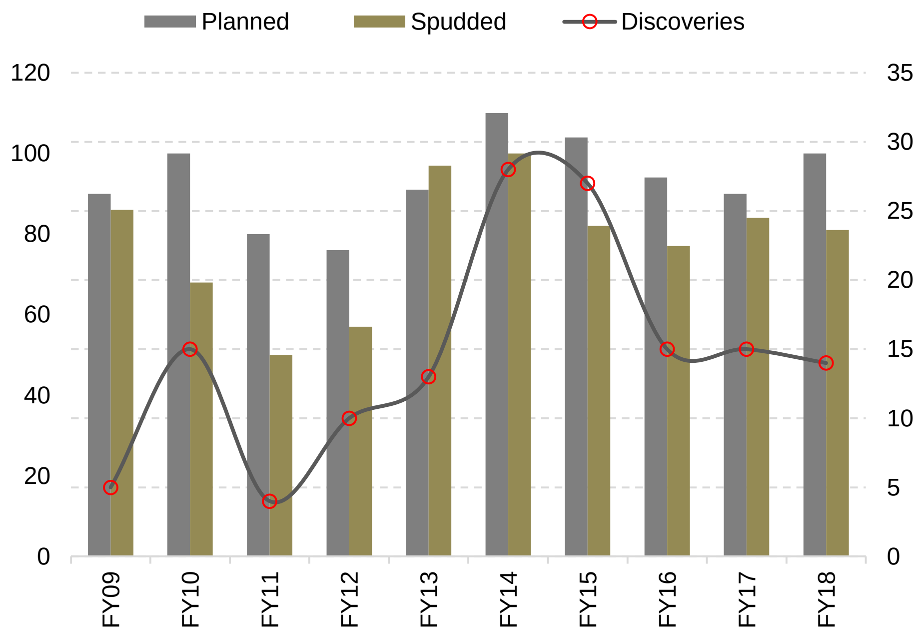
- **Exploration Momentum to continue:** During FY18, the domestic E&P companies spud a total of 81 wells out of a target of 100 wells, which includes 45 exploratory and 36 appraisal/exploratory. Moreover, 14 oil and gas discoveries were made by the E&P companies.

- **PKR depreciation and Oil Prices:** The E&P Universe companies are dependent on Arab Light price. Pertinently, a USD 5/bbl rise in oil price will have an impact of 5% and 7% on AHL E&P Universe's profitability for FY19 and FY20, respectively. Furthermore, for every 5% PKR depreciation, positive impact on bottom-line will be 2% in FY19.

Key Risks:

- Risk of inability to find commercial quantities of hydrocarbon.
- Consistent drop in oil prices and appreciation of Pak Rupee against greenback.
- Delay in production from new discoveries.
- Adverse outcome of the windfall levy case in the court of law.

Exhibit: Planned & Spudded Wells and Discoveries



Source: Company Financials, AHL Research

Exploration & Production

Oil Price Sensitivity

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

Code	Current Price	TP Dec-19	Upside (%)	Stance	EPS (PKR) 2019	EPS (PKR) 2020	DPS (PKR) 2019	DPS (PKR) 2020	P/E (x) 2019	P/E (x) 2020	DY (%) 2019	DY (%) 2020
PPL	162.5	167.0	2.8	Hold	20.8	17.9	10.00	9.00	7.8	9.1	6%	6%
OGDC	140.3	169.5	20.8	Buy	20.3	20.2	10.00	10.00	6.9	7.0	7%	7%
POL	463.1	461.3	(0.4)	Hold	43.7	43.9	42.00	42.00	10.6	10.5	9%	9%

With USD 45/bbl in FY19 and going forward

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

Code	Current Price	TP Dec-19	Upside (%)	Stance	EPS (PKR) 2019	EPS (PKR) 2020	DPS (PKR) 2019	DPS (PKR) 2020	P/E (x) 2019	P/E (x) 2020	DY (%) 2019	DY (%) 2020
PPL	162.5	191.7	18.0	Buy	22.9	23.4	11.00	11.00	7.1	6.9	7%	7%
OGDC	140.3	182.9	30.4	Buy	22.8	23.8	11.00	11.75	6.2	5.9	8%	8%
POL	463.1	528.2	14.1	Buy	51.1	54.7	50.00	52.00	9.1	8.5	11%	11%

With USD 55/bbl in FY19 and going forward

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

Code	Current Price	TP Dec-19	Upside (%)	Stance	EPS (PKR) 2019	EPS (PKR) 2020	DPS (PKR) 2019	DPS (PKR) 2020	P/E (x) 2019	P/E (x) 2020	DY (%) 2019	DY (%) 2020
PPL	162.5	213.6	31.5	Buy	25.0	27.9	12.00	14.00	6.5	5.8	7%	9%
OGDC	140.3	196.8	40.3	Buy	25.5	27.5	13.00	13.75	5.5	5.1	9%	10%
POL	463.1	593.0	28.1	Buy	58.5	65.4	56.00	64.00	7.9	7.1	12%	14%

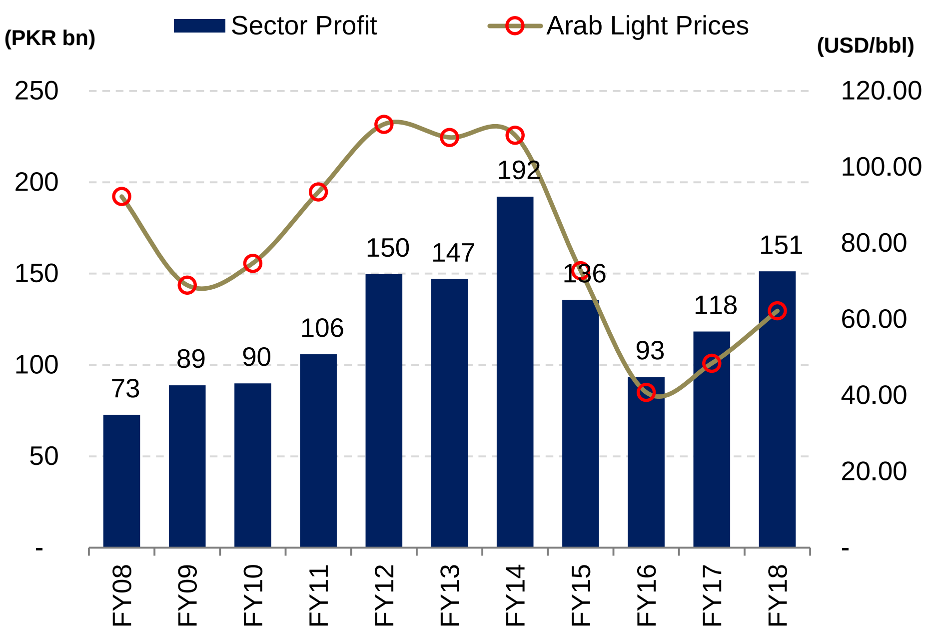
With USD 65/bbl in FY19 and going forward

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

Code	Current Price	TP Dec-19	Upside (%)	Stance	EPS (PKR) 2019	EPS (PKR) 2020	DPS (PKR) 2019	DPS (PKR) 2020	P/E (x) 2019	P/E (x) 2020	DY (%) 2019	DY (%) 2020
PPL	162.5	233.8	43.9	Buy	26.9	31.7	13.00	16.00	6.0	5.1	8%	10%
OGDC	140.3	209.9	49.6	Buy	27.8	30.9	14.00	15.25	5.0	4.5	10%	11%
POL	463.1	653.9	41.2	Buy	64.6	75.5	62.00	72.00	7.2	6.1	13%	16%

With USD 75/bbl in FY19 and going forward

Exhibit: Movement of Sector Profitability with Oil Prices

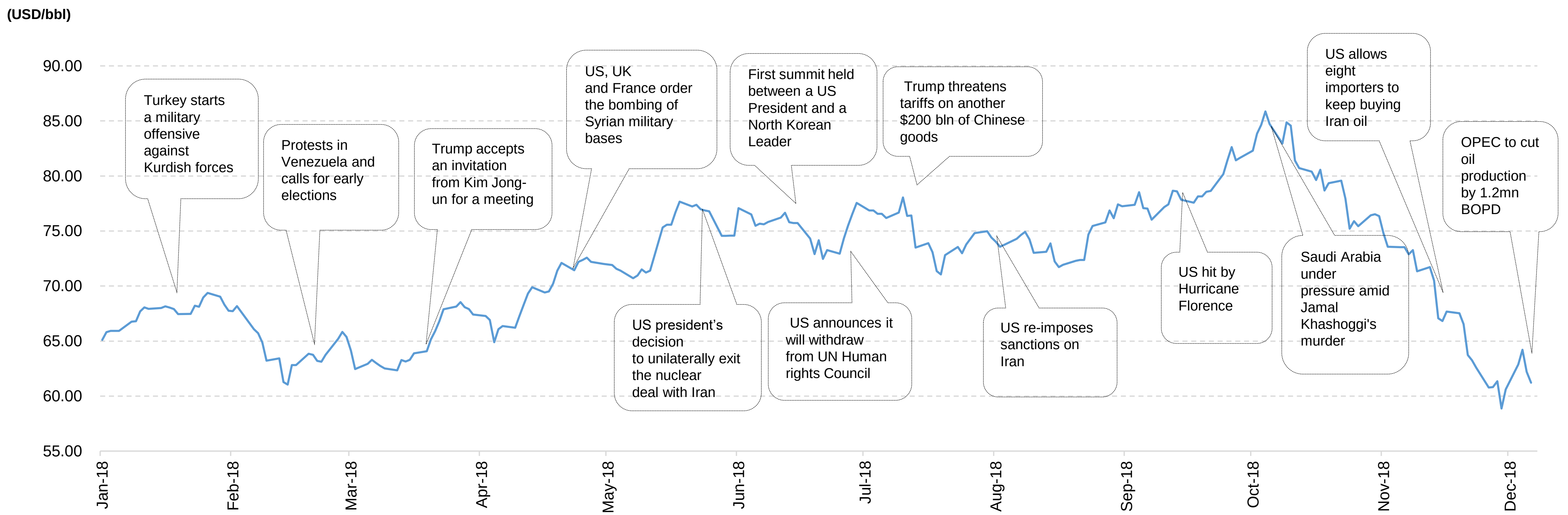


Source: Company Financials, AHL Research

Exploration & Production

Arab Light Price Movement Timeline

Exhibit: Major Events dictating Arab Light



Source: Bloomberg, AHL Research

ARIF HABIB LIMITED

Oil & Gas Development Company

The Bigger the Better

Target Price	PKR	196.8
Market Price	PKR	140.3
Upside	%	40.3
PSX Code		OGDC

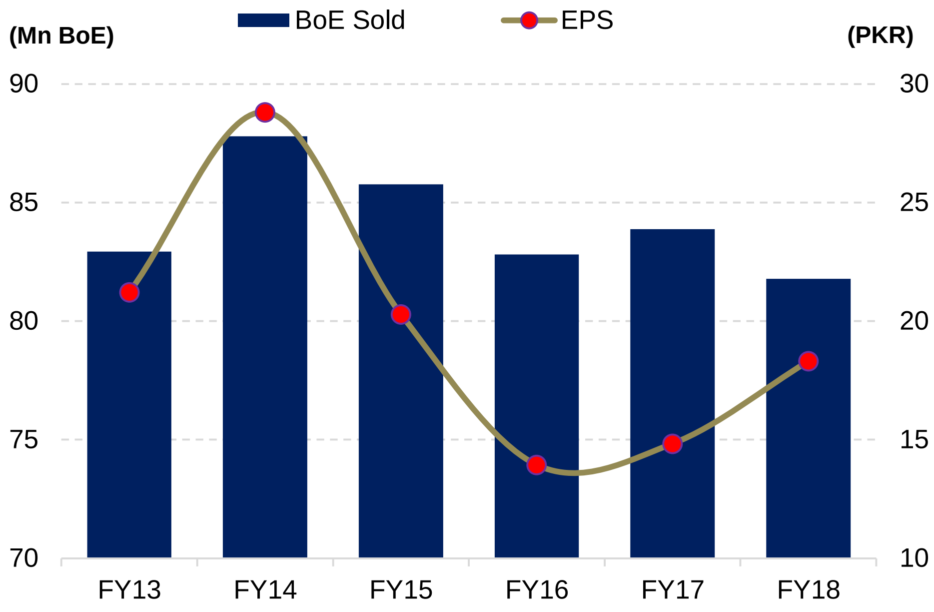
Key Investment Theme:

- **Production and new developmental projects:** The company's historic 5-Yr oil production shows a CAGR of 0.2%, contributed by Nashpa, Adhi, Makori East and Rajian. Whereas, 5-Yr Gas production CAGR portrays a fall of 2.2%, owing to natural decline at Qadirpur, KPD, Miano, Dakhni and Manzalai. Meanwhile, the work on Nashpa Project during FY18 has been completed and taken into production, which will add 19,200bopd and 82 mmcfd into production. Currently compression and up gradation projects are going on in Nashpa and Mela to counter depletion of gas reserves.
- **Encashment of PIBs:** PIBs worth PKR 53bn were en-cashed in FY18. Moreover, term deposits worth PKR 9.5bn also were converted into long term investments as the company intends to reinvest the money. At present, OGDC is contemplating ways to utilize its funds which includes 1) acquiring businesses outside the country, particularly in the Middle East, Africa and Indonesia, and 2) diversification of funds in other sectors such as downstream oil and gas. Whereas, higher payout ratio going forward is also a possibility.
- **Operating activities**: The company is planning to spud 21 wells in FY19 out of which 15 will be exploratory wells while 6 will be development wells. Additionally, drilling for Kekra-1, non-operated offshore Indus Block G in partnership with ExxonMobil, is expected to commence in 3QFY19. Moreover, for the purpose of exploration of new oil and gas reserves, higher productivity, efficiency and sharing of latest equipment, the company has signed an agreement of strategic partnership with MOL, KUFPEC and Gazprom.
- **Trading at the lowest PER:** The stock is currently trading at an implied oil price of USD 25.39/bbl as compared to Arab Light Price of USD 60.21/bbl with FY19 PER of 5.5x and PB of 1.0x along with a dividend yield of 9%. We expect the company to post of earnings of PKR 25.49/share and PKR 27.47/share in FY19 and FY20, respectively.

Key Risks:

- Increase in exposure to circular debt (PKR 121bn as of FY18).
- Consistent fall in oil prices and appreciation of Pak Rupee against greenback.
- Postponement in production and one-off expenses such as impairment and dry wells.
- Production cut from blocks such as Nashpa and TAL.

Exhibit: OGDC BoE sold and EPS



Source: Company Financials, AHL Research

Oil & Gas Development Company

The Bigger the Better

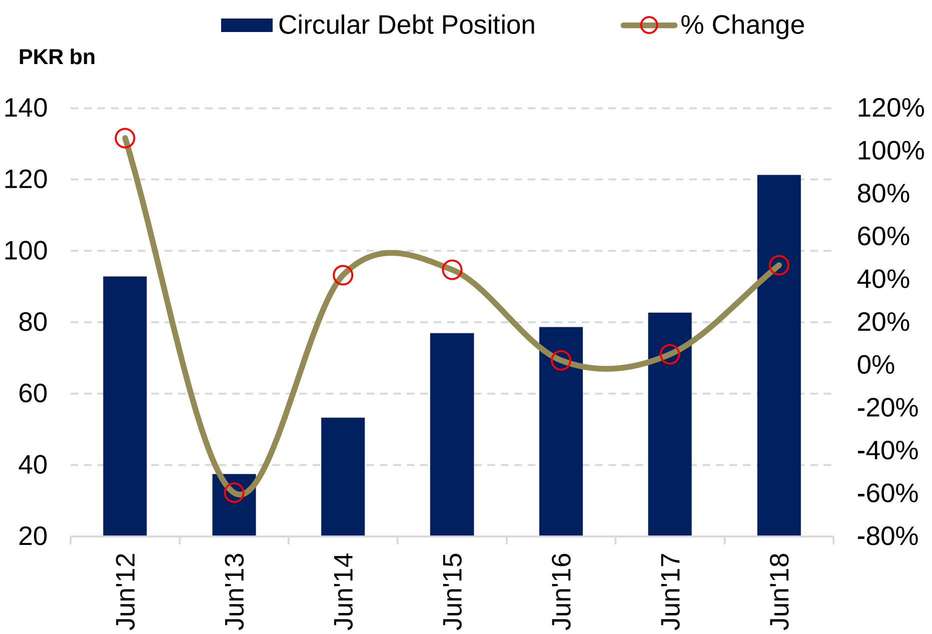
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	205,335	269,054	292,627
Gross Profit	121,480	170,977	187,650
Operating Profit	101,201	147,176	158,536
Finance Cost	1,730	2,355	2,524
Post Tax Profit	78,736	109,610	118,157
Balance Sheet			
Shareholder's Equity	550,556	611,781	679,567
Trade and Other Payables	55,195	80,395	93,291
Total Liabilities	115,921	143,907	159,736
Current Assets	405,858	475,758	538,417
Non-Current Assets	224,993	244,303	265,259
Total Assets	666,477	755,687	839,303

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings per share	PKR/Share	18.3	25.5	27.5
Dividend per share	PKR/Share	10.0	13.0	13.8
Book Value per share	PKR/Share	128.0	142.2	158.0
Price to Earning	x	8.5	5.5	5.1
Price to Book	x	1.2	1.0	0.9
Net Margins	%	59.2	63.5	64.1
Dividend Yield	%	6.4	9.2	9.8

Source: Company Financials, AHL Research

Exhibit: OGDC Circular Debt Position



Source: Company Financials, AHL Research

Pakistan Petroleum Limited

Reliable Bet

Target Price	PKR	213.6
Market Price	PKR	162.5
Upside	%	31.5
PSX Code		PPL

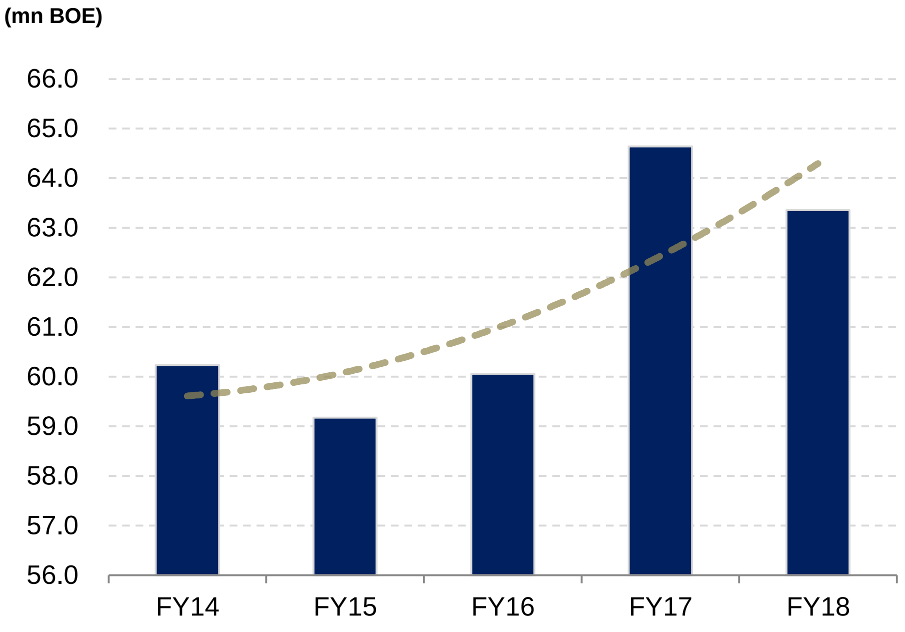
Key Investment Theme:

- **Earnings to jump up by 24% YoY in FY19:** Pakistan Petroleum Limited is expected to depict a 5-Yr earnings CAGR of 10%. Company's bottom-line is expected to settle at PKR 25.04/share in FY19 based on i) Pak Rupee devaluation against USD, ii) higher average oil prices, and iii) 4% YoY higher oil and gas production flows. The stock is trading at a FY19 PE of 6.5x and PB of 1.3x tagged with a dividend yield of 7%.
- **Production matrix:** PPL displayed a historic 5-Yr oil production CAGR of 4%, contributed by Nashpa, Adhi, Makori East and Maramzai. Similarly, 5-Yr gas production CAGR showed improvement of 1%, amid increase production from Kandhkot, Maramzai, Adhi and Nashpa. We expect FY19 oil production to increase by 7% YoY, amid addition of Adhi South X-1, Dhok Sultan, Badeel X-1, Talagang X-1, Yasar X-1, Bolan East X-1 and Gulsher 1 to the production system tagged with increase in production from regular fields like Gambat South, TAL and Adhi Block. Moreover, we expect gas production to increase by 4% YoY, owing to expected incremental production from Adhi, Sawan and Qadirpur.
- **Future operating activities:** Pertinently, Adhi gas compression project is under installation phase and is expected to come online in Jan'19. Moreover, construction work in Wafiq well in Gambat South is expected to be completed in Dec'18. Whereas, gas reserves of SUL west dome in Kandhkot field have increased by 109% YoY to 211 bcf in Jun'18 from 101 bcf in Jun'17 and following that, the well has been included in gas production. Apart from this, the company is planning to drill its maiden well in Block-8 in Iraq during FY19. Lastly, PPL, along with OGDC and Exxon, plans to engage in drilling offshore Indus G Block in 3QFY19.

Key Risks:

- Rising circular debt is a mammoth challenge, which has increased by 44% YoY to PKR 143bn as of Jun'18 as compared to PKR 99bn in Jun'17.
- With aggressive efforts to increase hydrocarbon production, the company can write off significant amounts as dry wells costs (4 drywells in FY18).
- Unfavorable terms of mining lease, especially in Sui, Adhi and Kandhkot.

Exhibit: PPL Oil And Gas Production



Source: Company Financials, AHL Research

Pakistan Petroleum Limited

Reliable Bet

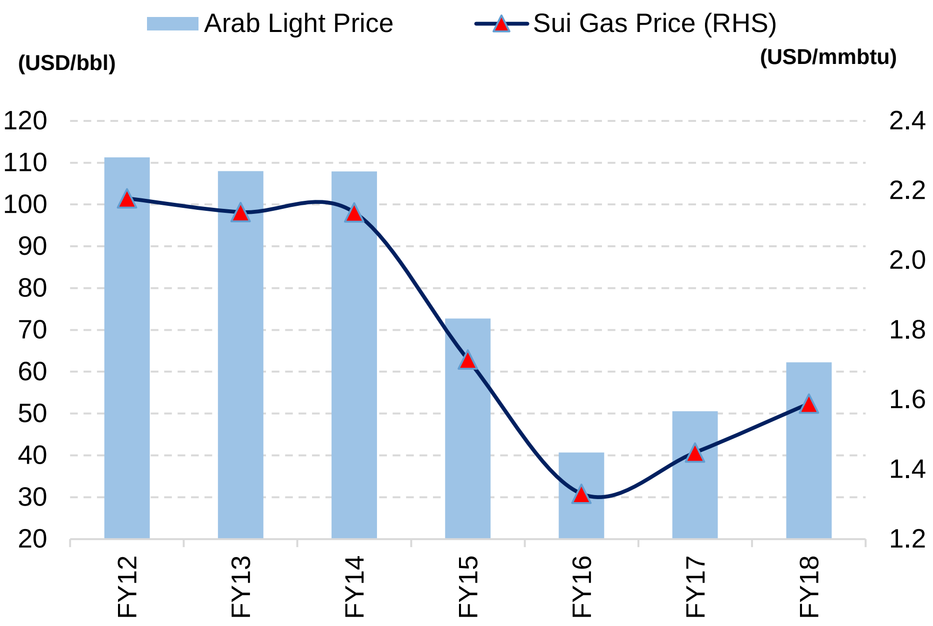
PKR mn	2018A	2019E	2020F
Income Statement			
Sales	126,210	154,125	171,540
Gross Profit	74,215	94,572	105,412
Other Income	9,319	7,318	6,744
Finance Cost	444	850	963
Post Tax Profit	45,688	56,776	63,268
Balance Sheet			
Shareholder's Equity	240,392	272,915	304,439
Total Liabilities	126,929	140,616	149,155
Current Assets	174,408	206,579	229,873
Fixed Assets	155,123	169,163	185,932
Non-Current Assets	192,913	206,952	223,721
Total Assets	367,321	413,532	453,594

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings per share	PKR/Share	20.1	25.0	27.9
Dividend per share	PKR/Share	5.5	12.0	14.0
Book Value per share	PKR/Share	106.0	120.4	134.3
Price to Earning	x	9.2	6.5	5.8
Price to Book	x	1.5	1.3	1.2
Net Margins	%	36.2	36.8	36.9
Dividend Yield	%	6.1	7.4	8.6

Source: Company Financials, AHL Research

Exhibit: Arab Light Prices vs. Sui Gas Price



Source: Company Financials, AHL Research

Pakistan Oilfields Limited

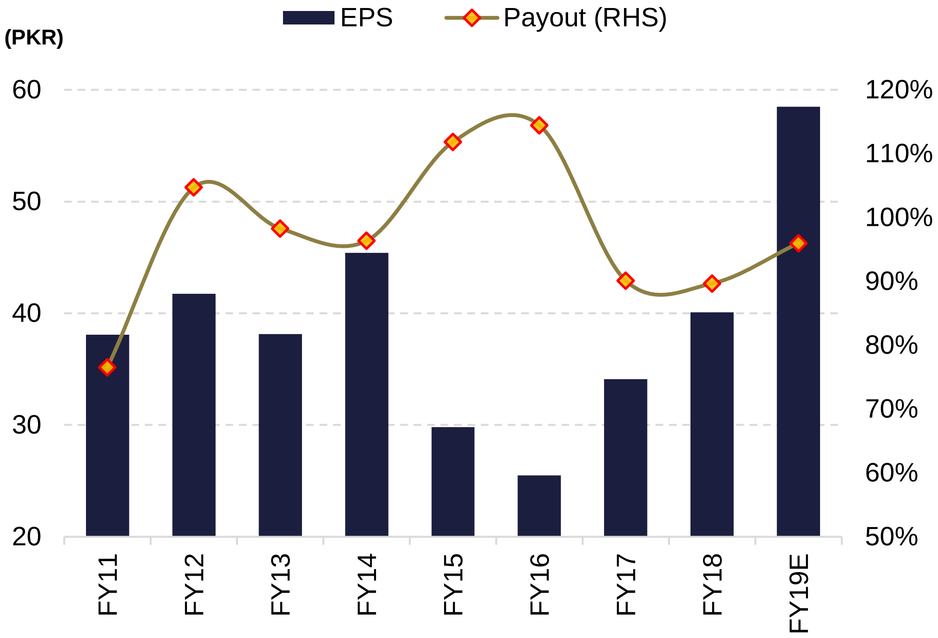
Blend of Price and Yield

Target Price	PKR	593.0
Market Price	PKR	463.1
Upside	%	28.1
PSX Code		POL

Key Investment Theme:

- **Solid 46% YoY earnings growth in FY19:** The growth in bottom-line is primarily owed to i) PKR depreciation (21% in FY19TD), and ii) growth in oil and gas production by 3% each, keeping in view new discoveries in Khaur North and Adhi South tagged with addition of new wells Jhandial, Makori East-6, Makori Deep, Tolanj X-1 and Tolanj West to the production system. Moreover, we expect the company to post a 5-Yr earnings CAGR (FY18-FY22) of 15%. With that said our FY19 and FY20 earnings estimate arrive at PKR 58.5/share and PKR 65.4/share, respectively.
- **Escalation in Oil & Gas Reserves:** Company's oil and gas reserves, according to the updated reserves data, depicts a massive growth of 134% and 80%, respectively as at Jun'18. This surge is owed to addition of Jhandial X-1's oil and gas reserves of 13.30mn bbls and 290 bcf, respectively, followed by Joyamair oil reserves swelling up to 24mn bbls from 0.06 bbls in Jun'17.
- **Production Growth:** The company spud three exploratory wells (Khaur North,Joyamair Deep and Mamikhel Deep-1) and two developmental wells (Adhi-31 and Adhi-32) during FY18. That said, the company's oil production witnessed a jump of 7.6% YoY amid higher production from Adhi, Mamikhel, Maramzai and Mardankhel during FY18. Similarly, gas production surged by 12.3% YoY, which was led by Maramzai, Adhi and Mardankhel. Going forward, POL is planning to undertake drilling of 8 news wells in FY19.
- **Highest Dividend Yield:** In FY19, the company is expected to have a dividend payout and dividend yield of 109% and 13% YoY, respectively (highest amongst E&P Universe).

Exhibit: POL Adjusted EPS and Payout Ratio



Source: Company Financials, AHL Research

Key Risks:

- More sensitive to oil prices; for every USD 5/bbl change in oil price, FY19 bottom-line changes by PKR 3.48/share or 6.7%.
- Production cut from TAL Block and Nashpa amid low up-liftment by refineries due to shortage of storage capacity for furnace oil.
- Risk of not being able to find new oil and gas reserves.

Pakistan Oilfields Limited

Blend of Price and Yield

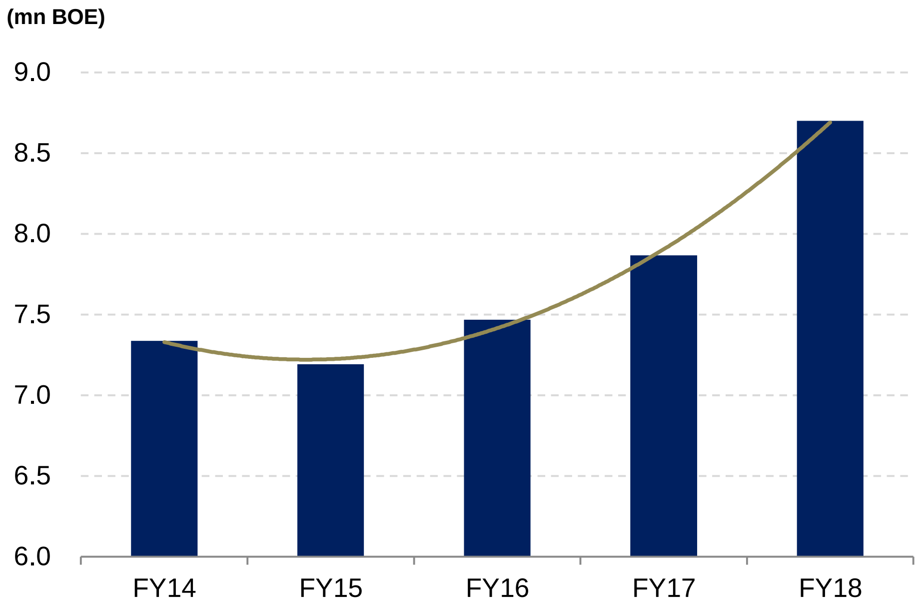
PKR mn	2018A	2019E	2020F
Income Statement			
Sales	32,665	47,620	51,377
Gross Profit	17,136	27,888	30,782
Other Income	3,262	2,604	2,967
Finance Cost	1,919	2,418	2,529
Post Tax Profit	11,384	16,597	18,562
Balance Sheet			
Shareholder's Equity	32,769	35,440	37,001
Total Liabilities	37,398	45,569	48,246
Current Assets	35,937	48,023	53,447
Fixed Assets	8,755	8,467	8,079
Non-Current Assets	34,230	32,986	31,800
Total Assets	70,167	81,009	85,247

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings per share	PKR/Share	40.1	58.5	65.4
Dividend per share	PKR/Share	42.5	56.0	64.0
Book Value per share	PKR/Share	115.4	124.8	130.3
Price to Earning	x	14.0	7.9	7.1
Price to Book	x	4.8	3.7	3.6
Net Margins	%	34.9	34.9	36.1
Dividend Yield	%	7.6	12.1	13.8

Source: Company Financials, AHL Research

Exhibit: POL Oil and Gas Production



Source: Company Financials, AHL Research

Fertilizers

Organic Fuel for the Economy

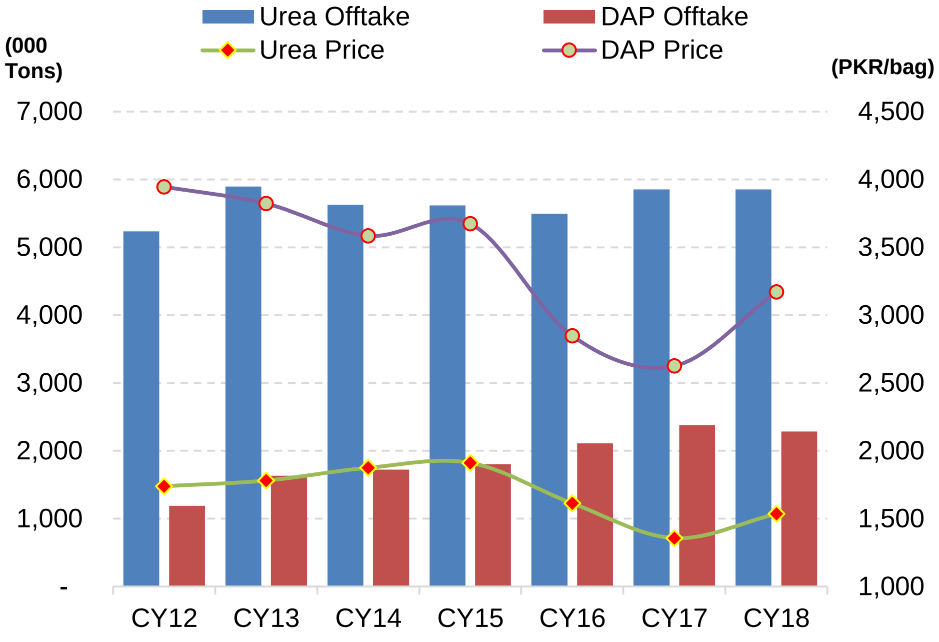
Key Investment Theme:

- **Pricing power:** Low inventory levels coupled with higher int'l urea prices maximized the pricing power of local manufacturers, leading towards higher margins. To recall, urea prices jumped up by 23% during CY18TD to PKR 1,730/bag.
- **Gas tariff hike:** The gov't increased gas tariff for fertilizer feed and fuel stock by 50% and 25% in Sep'18. Thereafter, local manufacturers increased urea prices by PKR 130/bag. We view that any upcoming gas tariff increase (Jan'19) will also be passed on to the end consumers by manufacturers.
- **Agriculture sector**: The sector contributed ~21% to the GDP during FY18, simultaneously ensured food security and provided employment to 45% of the population. Being backbone of the economy, we expect the incumbent government to prioritize performance of the sector which should aid fertilizer sale.
- **Offtake:** Over the past 10 years, fertilizer sector offtake has grown at an average rate of 2%. We expect urea offtake to clock-in at 5.8mn tons and 6.0mn tons during CY18 and CY19, respectively.
- **International prices on the rise:** International urea prices have recovered sharply to USD 320/ton, increasing by 11% in CY18TD. Major uptick in urea prices is owed to higher coal prices amid supply cuts from China. This provides a safe cushion to local prices.
- **Inventory levels to remain subdued:** We view that post seasonality in Dec'18, urea inventory levels would be minimum with local manufacturers. We estimate 4QCY18 urea offtake at 1.7mn taking CY18E offtake to 5.85mn tons and closing inventory at 0.182mn tons mainly with National Fertilizer Marketing Limited (NFML).

Key Risks:

- Gas tariff / GIDC increase and failure to pass on the same to end consumer.
- Volatility in international prices.
- Natural disasters such as floods and earthquake.

Exhibit: Urea, DAP Offtake and Average Prices



Source: Company Financials, AHL Research

Being a group company, we don't cover Fatima Fertilizer Company Ltd. (FATIMA).

Engro Corporation Ltd.

Sitting on a Crock of Gold

Target Price	PKR	359.6
Market Price	PKR	299.5
Upside	%	20.1
PSX Code		ENGRO

Key Investment Theme:

- **Strong profitability; 5-yr CAGR of 14%:** ENGRO is expected to post a 5-year profitability CAGR of 14%. The massive growth in earnings is primarily driven by 1) CoD of Engro Powergen Thar Power Limited (EPTPL) along with Sindh Engro Coal Mining Company (SECMC), 2) EFERT, where we expect windfall gains on urea price hike amid provision of concessionary gas, 3) Volumetric growth amid expansion in polymer business including PVC, VCM and hydrogen peroxide leading towards higher profitability, and 4) Steady business operations from Elengy terminal based on fixed RoE and Engro powergen Qadirpur, which is likely to remain stable amid secure gas supply.
- **Black gold:** Power projects worth ~USD 2bn include SECMC mining project amounting to USD 800mn and EPTPL mine-mouth 2x330MW coal power plant, with a ticket size of USD 1,200mn. SECMC mine and a 330MW power plant is expected to become operational by Mar’19 while the second 330MW plant would come online in Jun’19. We estimate EPTPL to contribute PKR 9.59/share to ENGRO’s profitability in CY20 and PKR 60.7/share to our SoTP-based target price. Likewise, SECMC mining project is expected to add PKR 1.42/share into our bottom-line and PKR 9.1/share to our target price.
- **Polymer expansion:** Engro Polymer is enhancing its PVC production capacity from 195K tons/annum to 295K tons/annum and similarly, increasing its capacity for VCM from 204K tons/annum to 274K tons/annum by 3Q 2020.
- **Cash position:** The company sits on a massive cash pile at present, amounting to PKR 62.7bn as at Sep’18, which could be utilized for future growth projects including RLNG terminal, Naptha cracking facility and further investment in Phase 3 and 4 power plants, to name a few.

Key Risks:

- Gas price hike for fertilizer sector.
- Volumetric and margin decline in dairy segment.
- Delay in Thar coal power plant.
- Inability to reinvest cash proceeds.

Exhibit: Sum of the Parts Valuation (SOTP)

Company	Stake	TP*
Engro Fertilizer	57%	132.2
Engro Foods	40%	57.6
Engro Polymer	56%	52.7
Engro Eximp Agri porducts	100%	0.1
Engro Powergen	69%	12.9
Engro Vopak	50%	3.7
Engro Elengy Terminal	80%	16.3
Engro Powergen Thar Ltd	50%	60.7
SECMC	12%	9.1
After portfolio Discount	30%	241.6
Cash		118.1
Total		**359.7**

Source: Company Financials, AHL Research,
*Target prices on ENGRO's paid up capital,

Engro Corporation Ltd.

Sitting on a Crock of Gold

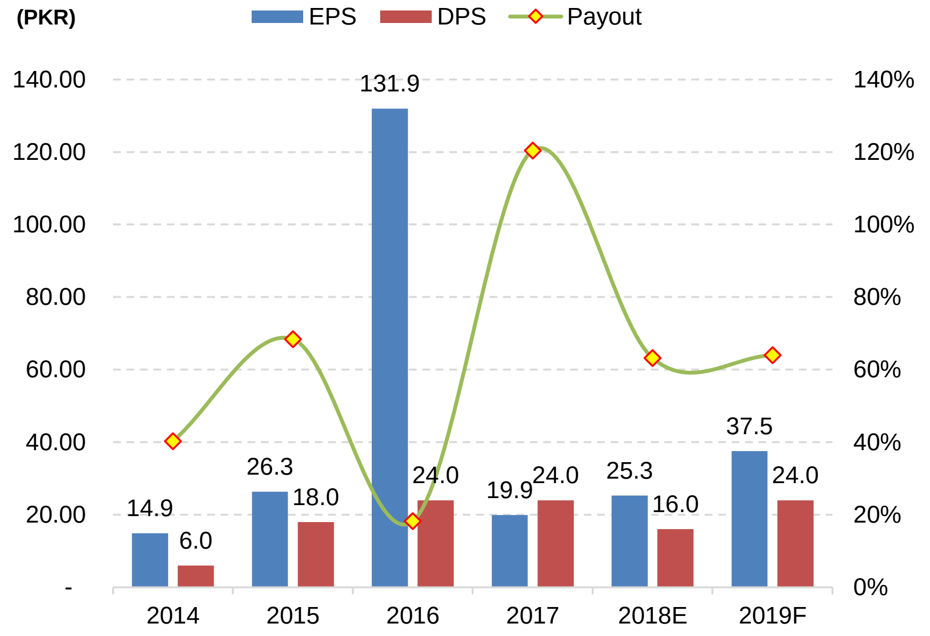
PKR mn	2017A	2018E	2019F
Income Statement			
Net Sales	118,982	133,847	143,063
Gross Profit	29,279	35,653	38,838
Other Income	6,586	7,756	5,880
Finance Cost	3,902	4,102	4,529
Post Tax Profit	10,440	13,261	19,654
Balance Sheet			
Shareholder's Equity	171,074	175,217	189,330
Interest Bearing Liabilities	100,829	139,310	130,390
Total Liabilities	152,879	193,608	184,358
Current Assets	127,316	110,984	115,284
Non-Current Assets	196,637	257,842	258,404
Total Assets	323,953	368,825	373,688

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	19.9	25.3	37.5
Dividend	PKR/Share	24.0	16.0	24.0
Book Value	PKR/Share	326.6	334.5	361.5
Price to Earning	x	13.8	11.8	8.0
Price to Book	x	0.8	0.9	0.8
Net Margins	%	24.6	26.6	27.1
Dividend Yield	%	8.7	5.3	8.0

Source: Company Financials, AHL Research

Exhibit: Historical & Expected Payout



Source: Company Financials, AHL Research

Engro Fertilizer Ltd.

Top-up Your Roots for Maximum Yield

Target Price	PKR	91.0
Market Price	PKR	74.2
Upside	%	22.6
PSX Code		EFERT

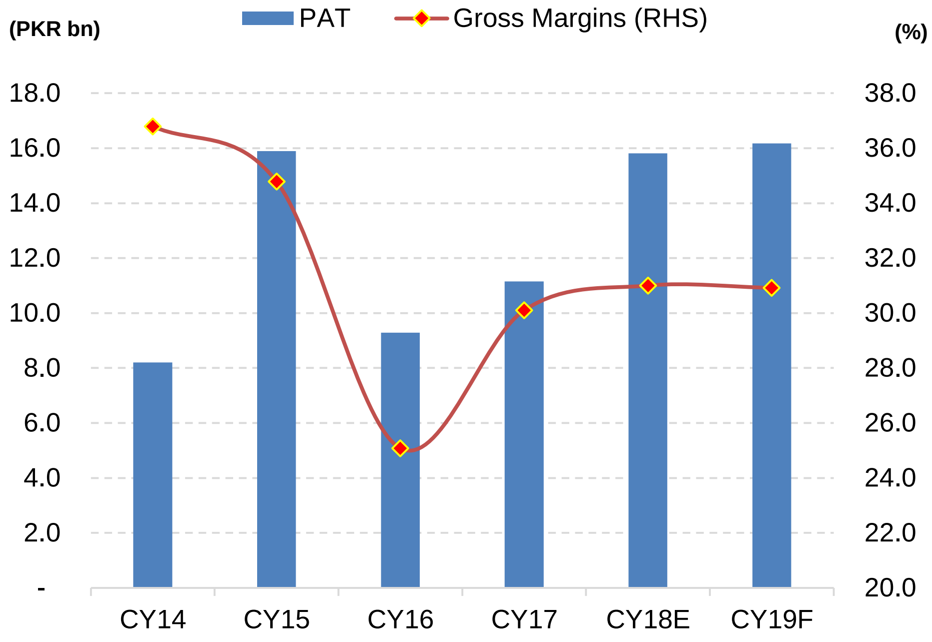
Key Investment Theme:

- **Immune to gas tariff hike:** The company remains immune to gas tariff hikes given availability of concessionary gas at USD 70/mmbtu for 5 years (till 2023) for its EnVen plant. To recall, gov't increased feed stock price by PKR 62/mmbtu in Sep'18 and local manufacturers passed it on to end consumers, which resulted in higher margins for plants with concessionary gas price. With another gas tariff hike on the cards, EFERT is poised to generate incremental margins in 2019 as well.
- **Trading business**: The company is expected to import 450k tons of DAP in CY19, leading towards earnings contribution of PKR 2,036mn (EPS: PKR 1.53). Moreover, current annual demand for DAP in Pakistan is around 2.0mn tons out of which FFBL is expected to cater to 0.75mn tons, while the rest will be shared between EFERT and other private importers.
- **Lowest multiple in fertilizer sector**: The stock is currently trading at CY19F PE of 6.3x compared with industry PER of 7.3x along with highest dividend yield of 11.5%.

Key Risks:

- For every PKR 50/bag reduction in urea prices, bottom-line is eroded by PKR 0.97/share.
- Gas tariff hike in feed stock / fuel stock.

Exhibit: PAT & Gross Margins



Source: Company Financials, AHL Research

Engro Fertilizer Ltd.

Top-up Your Roots for Maximum Yield

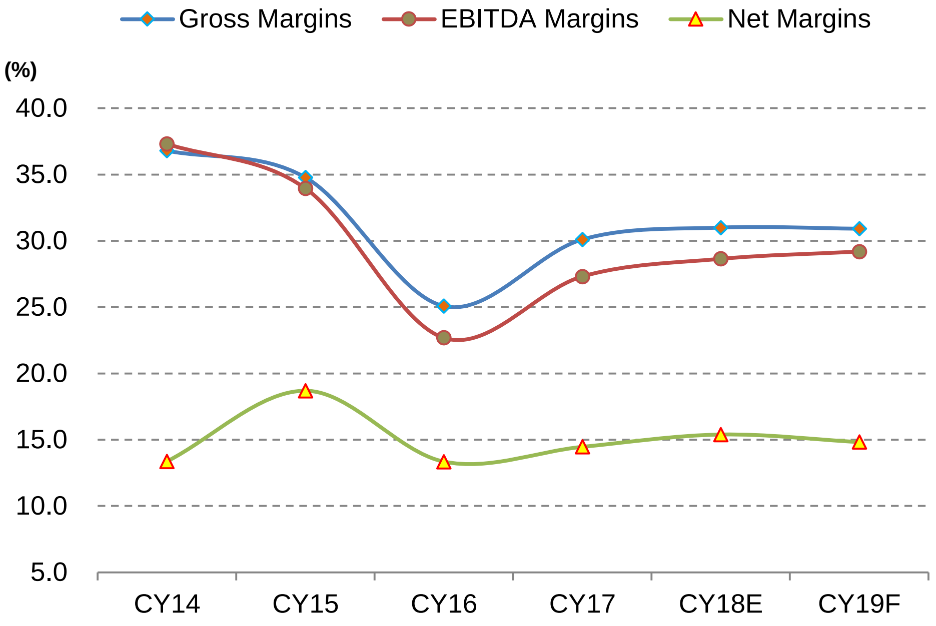
PKR mn	2017A	2018E	2019F
Income Statement			
Net Sales	77,129	102,721	109,145
EBITDA	21,066	29,423	31,865
Other Income	5,866	2,403	1,891
Finance Cost	2,648	2,007	2,300
Post Tax Profit	11,156	15,811	16,180
Balance Sheet			
Shareholder's Equity	42,470	43,593	44,417
Interest Bearing Liabilities	36,168	29,543	22,888
Total Liabilities	69,347	52,222	45,386
Current Assets	38,283	24,854	20,180
Non-Current Assets	73,533	70,961	69,623
Total Assets	111,816	95,815	89,803

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	8.4	11.8	12.1
Dividend	PKR/Share	11.0	11.5	11.5
Book Value	PKR/Share	31.9	32.8	33.4
Price to Earning	x	8.1	6.3	6.1
Price to Book	x	2.1	2.3	2.2
Net Margins	%	27.3	28.6	29.2
Dividend Yield	%	16.2	15.5	15.5

Source: Company Financials, AHL Research

Exhibit: Margins



Source: Company Financials, AHL Research

Fauji Fertilizer Company Ltd.

Winning the Game of Numbers

Target Price	PKR	113.8
Market Price	PKR	94.3
Upside	%	20.7
PSX Code		FFC

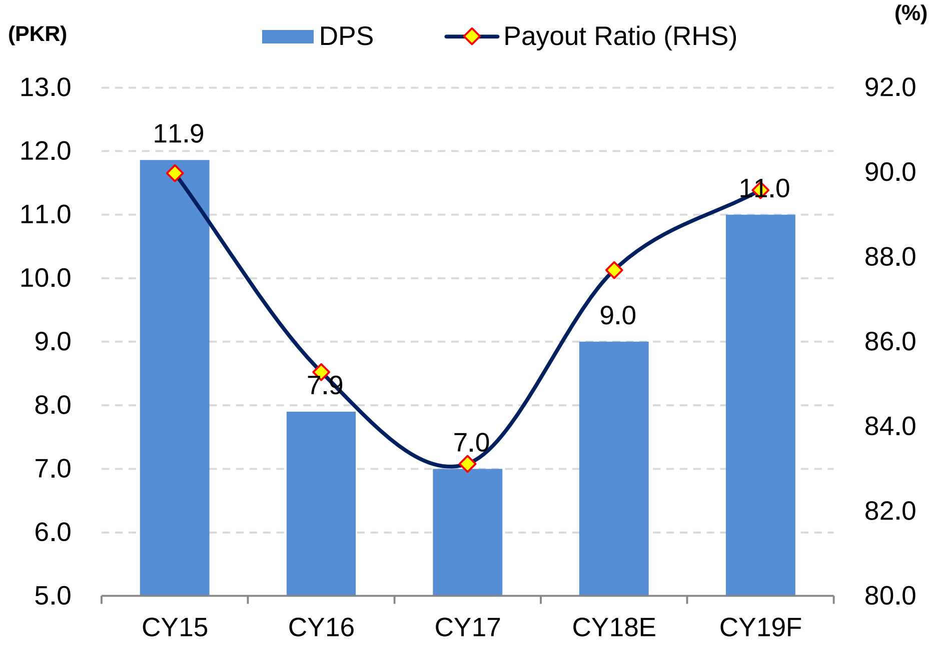
Key Investment Theme:

- **Safest player:** FFC remains the 2nd largest urea manufacturer in the country with highest market share,. It also stands as the most secure investment in the sector in terms of lower gas curtailment, premium branding, high payout ratio and diversified investment base.
- **Diversification:** The company has a diversified portfolio including investment in Askari Bank Limited (AKBL), FFC Energy Limited and Fauji Fresh n Freeze. We expected dividend income of PKR 1.00/share from AKBL and PKR 600mn from FFC Energy Limited in CY19.
- **Operational excellency:** Stable urea offtake (average of 2.4mn tons during the last 5 years) with the ability to operate at maximum capacity utilization level of 126% last year (average of 123% during CY17) amid secure gas supply from the Mari field. Going forward, we anticipate offtake to remain steady at 2.4mn tons for urea and 0.5mn tons for DAP during CY19.
- **Removal of GIDC**: The removal of GIDC is expected to be a big trigger for companies including FFC and FFBL. Gov't may reduce/remove GIDC to bring down urea prices in the local market. Any savings from that would result in windfall gains for FFC and FFBL.
- **Lucrative yields:** High dividend payout ratio (3-year average of 85%) translates into a dividend yield of 11% for CY19.

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 hurt FFC's EPS by PKR 1.32.

Exhibit: Growing Payout Ratio



Source: Company Financials, AHL Research

Fauji Fertilizer Company Ltd.

Winning the Game of Numbers

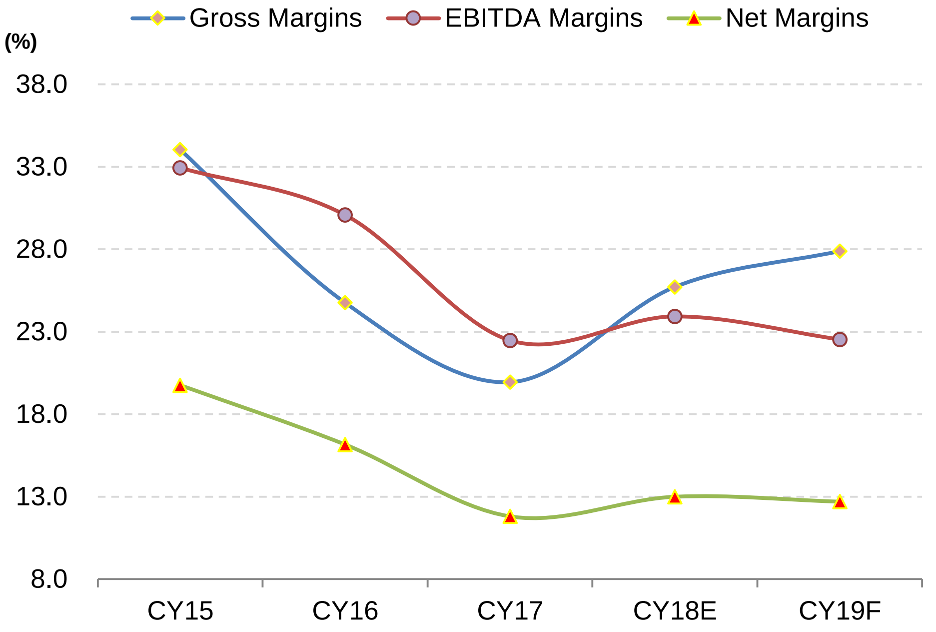
PKR mn	2017A	2018E	2019F
Income Statement			
Net Sales	90,714	100,419	122,986
EBITDA	20,394	24,035	27,718
Other Income	10,324	6,926	2,742
Finance Cost	849	1,475	2,406
Post Tax Profit	10,712	13,055	15,619
Balance Sheet			
Shareholder's Equity	29,352	30,959	32,586
Interest Bearing Liabilities	33,942	45,742	40,860
Total Liabilities	79,278	100,992	107,527
Current Assets	55,885	77,460	85,807
Non-Current Assets	52,746	54,491	54,306
Total Assets	108,631	131,951	140,113

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	8.4	10.3	12.3
Dividend	PKR/Share	7.0	9.0	11.0
Book Value	PKR/Share	23.1	24.3	25.6
Price to Earning	x	9.5	9.2	7.7
Price to Book	x	3.5	3.9	3.7
Net Margins	%	11.8	13.0	12.7
Dividend Yield	%	8.7	9.5	11.7

Source: Company Financials, AHL Research

Exhibit: Margins



Source: Company Financials, AHL Research

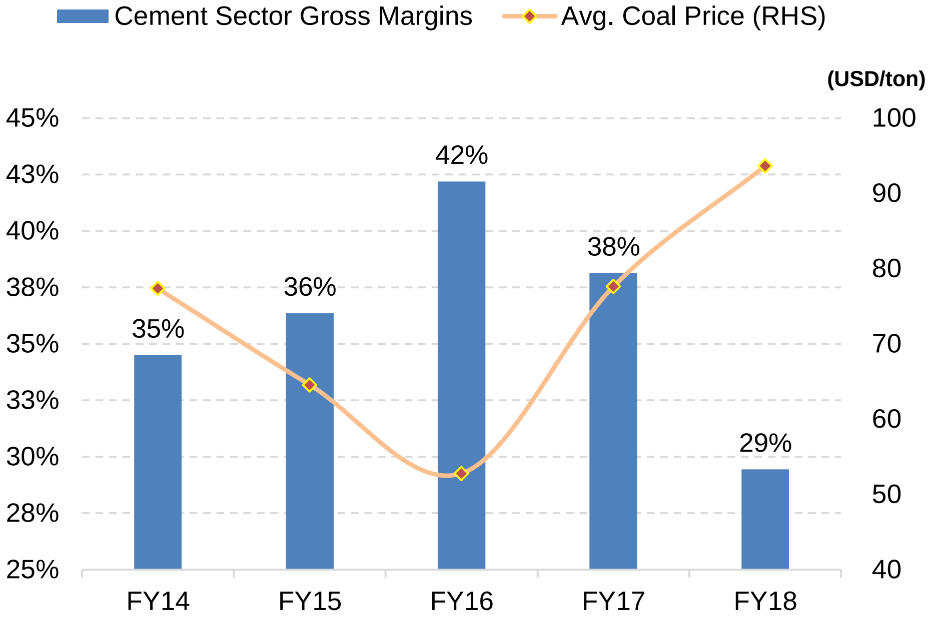
Cements

Growth That Ruffles The Order

Key Investment Theme:

- **Exports to deliver whilst local dispatches feel the tremors:** As the Pak economy wads under economic instability and the government adopts a contractionary monetary and fiscal policy to control inflation and twin deficits, cement demand in the domestic space is set to feel a squeeze (3-yr forward CAGR of 2% by FY21). In comparison, we expect exports to provide a breathing space as over capacity in the sector together with dollar appreciation against the Pak Rupee and renewed US sanctions on Iran have once again brought global markets under the radar; we project demand from exports to grow at a 3-yr forward CAGR of 15% led primarily by clinker dispatches.
- **Marginally weaker:** Not only was pricing under pressure all through a major part of FY18, coal prices were unforgiving (touching a high of USD 106.15/ton in Jun'18) tagged with the Pak Rupee rolling down to average at USD 110.13 against the greenback. Moreover, recent gas price hike and the higher excise duty under the FY19 Budget by PKR 12.50/bag, have added to the industry's woes and are expected to keep margins muted. Although coal appears bearish at the moment (USD 94.75/ton), we believe the PKR-USD parity would stage an unfavorable prognosis in FY19 (already at 138.89/USD), while major upside in pricing appears unlikely in the backdrop of supply side pressures. In addition, the upswing in interest rates against a climate of rising leverage positions to sponsor capacity additions, also poses a risk to the sector profitability.
- **Pricing whereabouts:** As margins came drastically below glory year levels in FY18 (29.4% vs. 36.4% in FY17) and reemergence of exports relieved some pressure off local players of over capacity / under utilization, optimism was witnessed in cement pricing in the last two quarters in order to recover some profitability. Taking cue, we believe South appears to be a safer bet as most expansions have come online (barring one, see slide 65) and exports from the region are expected to be robust in FY19 given closeness to the port. In comparison, North accommodates several more players and many planned brownfield projects over the course of the next 3 years will continue to suppress pricing power.

Exhibit: Cement Sector Gross Margins Vs Coal Prices



Source: Company Financials, Bloomberg, AHL Research

Cements

Growth That Ruffles The Order

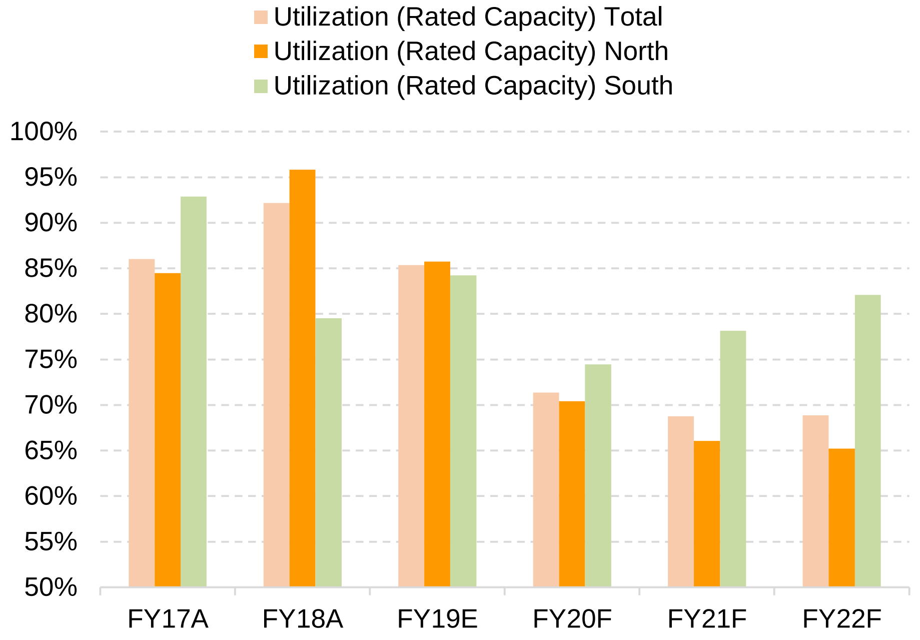
Key Investment Theme:

- **Naya Pakistan Housing Scheme could spark demand:** While investment in sectors of housing, energy and infrastructure has historically led cement demand in the country, a slowdown in the economy may temporarily inhibit growth. Albeit, PM's housing scheme (whereby the incumbent government has drawn a 5 year plan to build 5mn new units), remains a key catalyst for the sector. Pertinently, we have forecast potential demand stemming from construction of 250k houses per annum at 8.75mn tons., assuming consumption of 35 tons of cement for a single story 100sq yards house.

Key Risks:

- PKR depreciation against USD.
- Ascent in coal prices.
- Further loss of pricing power owing to new capacities.
- Electricity tariff hike.

Exhibit: Capacity utilisation in South appears rosier vs. North



Source: Company Financials, AHL Research

Cements

Growth That Ruffles The Order

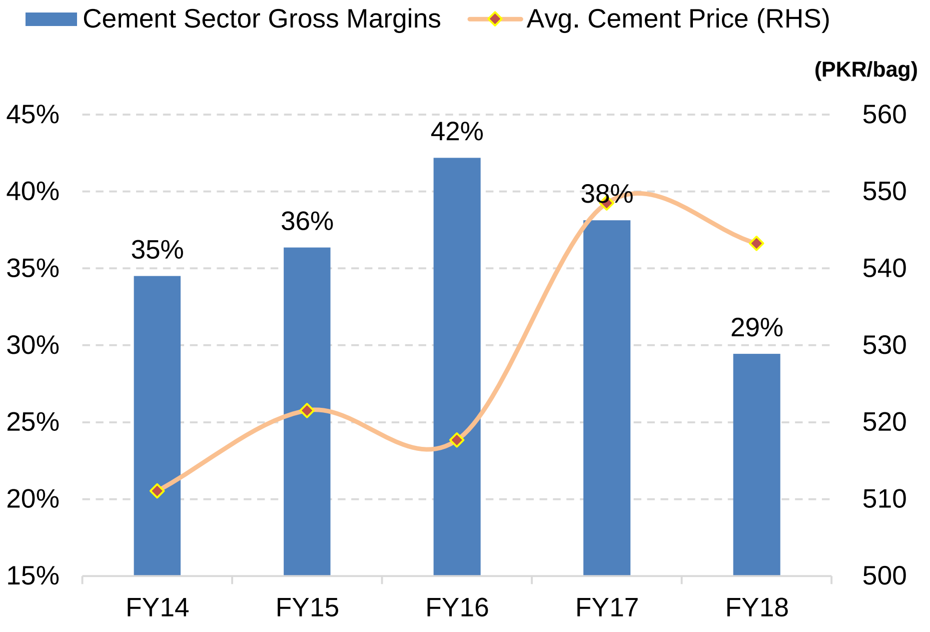
- We have attached below a snapshot of the cement industry. With current capacity hovering at around 54.23mn tons (13.99mn tons in South and 40.24mn tons in North), announced expansions are set to take installed capacity of the sector up by ~31% to 71.15mn tons (16.49mn tons in South and 54.66mn tons in North) by FY21. Pertinently, only one pertains to South while 8 out of the 9 remaining Brownfield projects target the North market. We also highlight that MLCF, CHCC and POWER are scheduled to undergo capacity growth before the close of FY19.

Exhibit: Announced Capacities

Company	Type of expansion	Capacity (mn/ton)		Timeline	Comments
		South	North		
POWER	Brownfield	2.5		2HFY19	Civil works near completion stage
CHCC	Brownfield		2.1	2HFY19	On-track
MLCF	Brownfield		2.2	2HFY19	On-track
LUCK	Brownfield		2.6	4QCY19	Civil works underway
KOHC	Brownfield		2.3	1HFY20	Civil works underway
PIOC	Brownfield		2.4	2HFY20	On-track
FLYNG	Brownfield		0.6	2HFY20	Slight delay
DGKC	Brownfield		2.2	2HFY21	Delayed
Total		**2.50**	**14.42**		
Current capacity		13.99	40.24		
Post expansion capacity		**16.49**	**54.66**		

Source: Company Financials,, AHL Research

Exhibit: Cement Sector Gross Margins Vs Cement Prices



Source: Company Financials, PBS, AHL Research

Lucky Cement Ltd.

A Guide to Leadership

Target Price	PKR	586.5
Market Price	PKR	469.6
Upside	%	24.9
PSX Code		LUCK

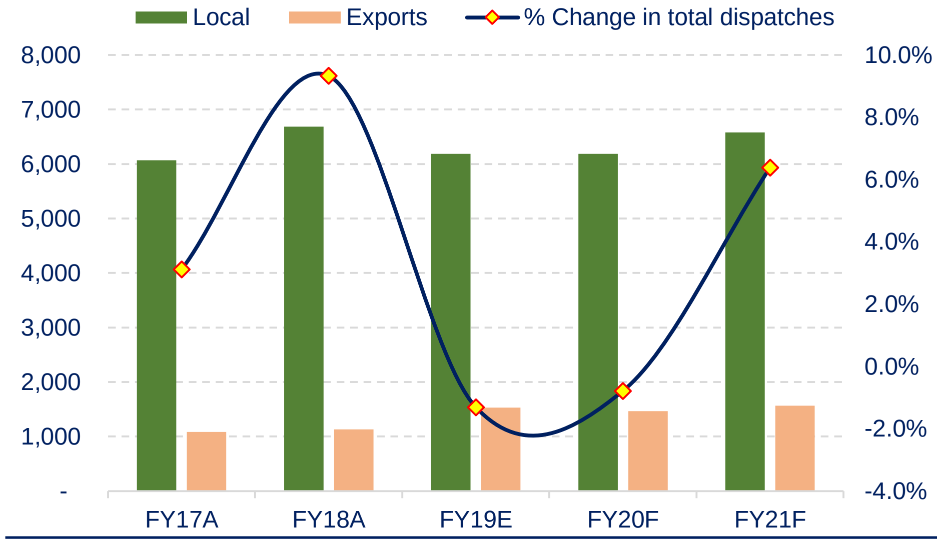
Key Investment Theme:

- **Bottom-line CAGR robust despite changing local landscape:** Second largest cement player and a prominent conglomerate, Lucky Cement Limited (LUCK) has often been touted as a trailblazer of diversification in Pakistan. We eye a solid earnings CAGR of 12% for the company by FY23 to PKR 21,931mn (EPS: PKR 67.82), taking account of the company's chief cement business where we view total dispatches to over 9mn tons.
- **Branching out to an impressive portfolio:** LUCK's strategic divergence to various sectors has always been its main pitch. The company operates in the local cement industry with a footprint in North and South of Pakistan and a nameplate capacity of 9mn tons whereas expansion beyond borders in DR Congo (1.2mn tons) and Iraq (1.7mn tons) adds to its cement dominance. Pertinently, the company's second leg of expansion in the local market is underway; LUCK has commenced civil works at the site of its 2.6mn tons Brownfield project in Pezzu, KPK with commercial operations scheduled for 4QCY19. In addition, the company is in the process of constructing a PKR 20bn automobile plant in Pakistan alongside South Korean auto giant Kia, with expected COD in Jun'19 (2QCY19). This will be followed by a project of national importance which will also solidify LUCK's presence in the energy sector; apart from a 50MW wind power plant located at Jhimpir (20% equity stake; operational since Sep'16), its 100% owned 660MW coal power plant is projected to kick-off operations in Mar'21 (we have assumed COD in FY22). Finally, the company's 56% share in ICI Pakistan Limited - a listed chemical company – also augments value of the portfolio.
- **Sum of the parts-based TP of PKR 587:** With the stock offering a noteworthy 30% upside to the Dec'19 target price of PKR 587/share, we flag LUCK as our top pick in the cement sector. We believe above industry average P/E multiple remains justifiable for the company given its diversified theme.

Key Risks:

- Cement prices tapering off; every PKR 5/bag decline will erode earnings by PKR 1.1/share (3%).
- Drastic ascent in coal prices; FY19 bottom-line should retreat by PKR 1.45/share (4%) on every USD 5.00/ton uptick in average coal prices.
- Postponement in materialization of key investment projects.

Exhibit: LUCK's sales break up



Source: AHL Research, * 2019F

Lucky Cement Ltd.

A Guide to Leadership

PKR mn	2018A	2019E	2020F
Income Statement			
Sales	47,542	53,053	55,019
Gross Profit	16,952	17,414	16,802
Other Income	2,595	2,281	1,865
Other Charges	1,346	1,502	1,558
Post Tax Profit	12,197	10,596	9,950
Balance Sheet			
Shareholder's Equity	86,367	92,758	99,151
Current Liabilities	15,237	16,350	16,882
Trade and other payables	13,252	14,364	14,897
Non-Current Liabilities	7,395	7,468	7,616
Current Assets	42,956	27,085	21,731
Non-Current Assets	66,043	89,492	101,918

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings	PKR/Share	37.7	32.8	30.8
Dividend	PKR/Share	13.0	11.0	11.0
Book value	PKR/Share	267.1	286.8	306.6
Price to Earning	x	13.5	14.3	15.3
Price to Book	x	1.9	1.6	1.5
Gross Margins	%	35.7	30.0	32.8
Dividend Yield	%	2.6	2.3	2.3

Source: Company Financials, AHL Research

Exhibit: Target Price Methodology

Sum of the Parts	Value*	Per share	Discount	TP
Core	93,214	288		288.3
ICI	31,850	98	30%	68.9
Iraq Project	3,221	10		10.0
Congo Project	12,457	39		38.5
660 MW Coal Power Plant	45,696	141		141.3
Wind Power	2,685	8		8.3
KIA motors	10,093	31		31.2
	199,217	**616**		**586.51**
			Last closing	***469.6***
			Upside	***25%***

Source: AHL Research, * PKR mn

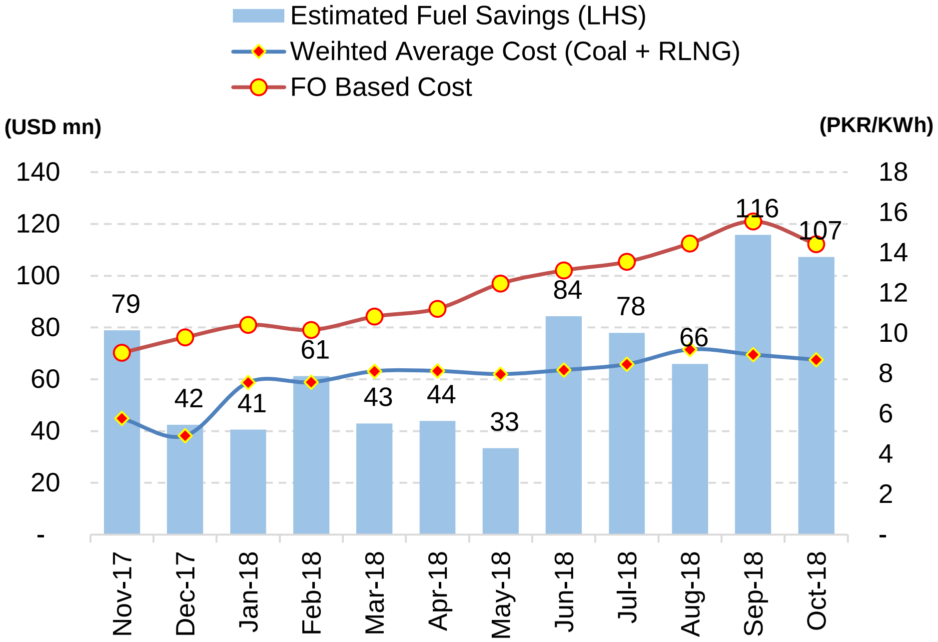
Power Generation & Distribution

Declining Reliance on FO-based generation

Key Investment Theme:

- **Growing power demand:** During 10MCY18, power generation has increased by 9.7% YoY. However, power generation during Oct'18 witnessed a decline of 5.9% YoY to 9,574 GWh (12,868 MW), as compared to 10,177 GWh (13,679 MW) during Oct'17. We estimate the power demand to grow by 5% annually.
- **Declining share of FO-based generation:** During Oct'18, major contributors towards power generation remain Hydel, RLNG, Gas, Coal, Nuclear and FO. RLNG-based generation's share has witnessed a growth of 826bps to 22.9% compared to 14.7% during Oct'17. Whereas power generation on furnace oil declined as the government relied on cheaper options like RLNG and coal to generate power. Therefore, generation on FO dipped by 70% YoY to 754 GWh from 2,547 GWh and its share reduced from 25% to 7.9%.
- **Induction of coal & RLNG power plants is materializing:** As mentioned earlier, the share of coal and RLNG has been increased to 12% and 23%, respectively. Both these sources of power generation are relatively cheaper than FO. The current cost of coal and RLNG based production is ~PKR 6.5/KWh and ~PKR 9.9/KWh, which is significantly lower than FO's ~PKR 15.6/KWh. As per our calculations, the country has saved ~USD 795mn during last 12-months from this shift.
- **CPEC is materializing:** Under CPEC, two coal based power plants (Sahiwal & Port Qasim) are generating electricity while the third, China Power Hub Generation's first unit (660 MW), is in testing phase and expected to come online in Jan'19. To recall, China is investing ~USD35bn in energy related projects under the umbrella of CPEC.

Exhibit: USD 795mn has been saved by replacing FO generation



Source: NEPRA, AHL Research

Key Risks:

- Lower than expected PKR depreciation.
- Piling up of Circular debt.

Hub Power Company Ltd.

Entering the Era of Growth

Target Price	PKR	115.5
Market Price	PKR	90.2
Total Return	%	35.8
PSX Code		HUBC

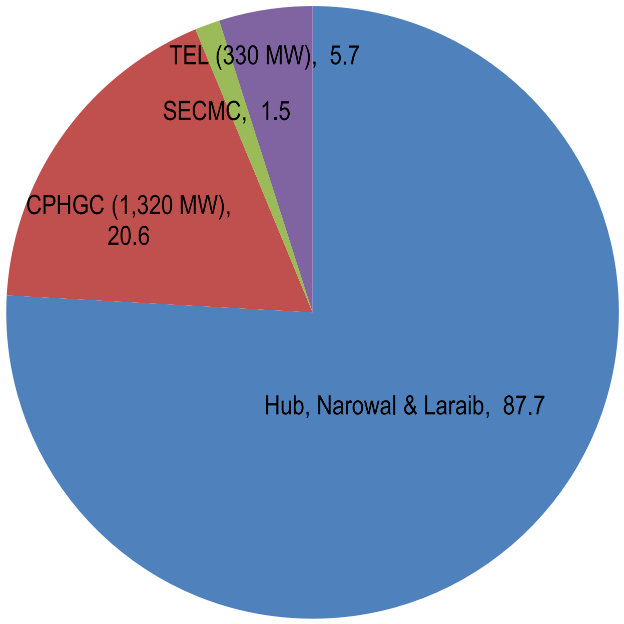
Key Investment Theme:

- **China Power Hub Generation Company (2x660 MW):** The project achieved financial close in Jan'18 and one unit (660 MW) is expected to come online in Jan'19 (currently in testing phase). In addition, the company has initiated the process for increasing its shareholding to 47.5% by using the call option. As per management, the process is expected to complete during the first quarter of 2019 subject to regulatory approvals. As per our workings, the project contributes PKR 20.6/share to our Sum-Of-The-Parts (SOTP) valuation of the company.
- **Thar Energy Limited (1x330 MW):** Thar Energy Limited will set up a mine mouth coal-fired plant (330 MW) whereby HUBC is the largest shareholder in the project with a 60% shareholding, followed by 30% of Fauji Fertilizer Company Ltd. (FFC), and the remainder (10%) is owned by China Machinery and Engineering Corporation (CMEC). Financial closure of the project is yet to be achieved and the project is likely to commence operations by Jun'20. The project adds PKR 5.7/share to our SOTP valuation.
- **Thal Nova (1x330 MW):** During Dec'18, Hub Power Holding Limited (100% owned subsidiary of HUBC) has acquired 37% stake in ThalNova Power Thar (Pvt) Ltd. The expected cost of the project is USD 498mn and is expected to achieve CoD by Jun'21. This is not included in our valuations.

Key Risks:

- Lower than expected PKR depreciation.
- Piling up of Circular debt.
- Delay in Coal Projects.

Exhibit: Sum of the Parts Valuation (PKR/Share)



Source: Company Financials, AHL Research

Hub Power Company Ltd.

Entering the Era of Growth

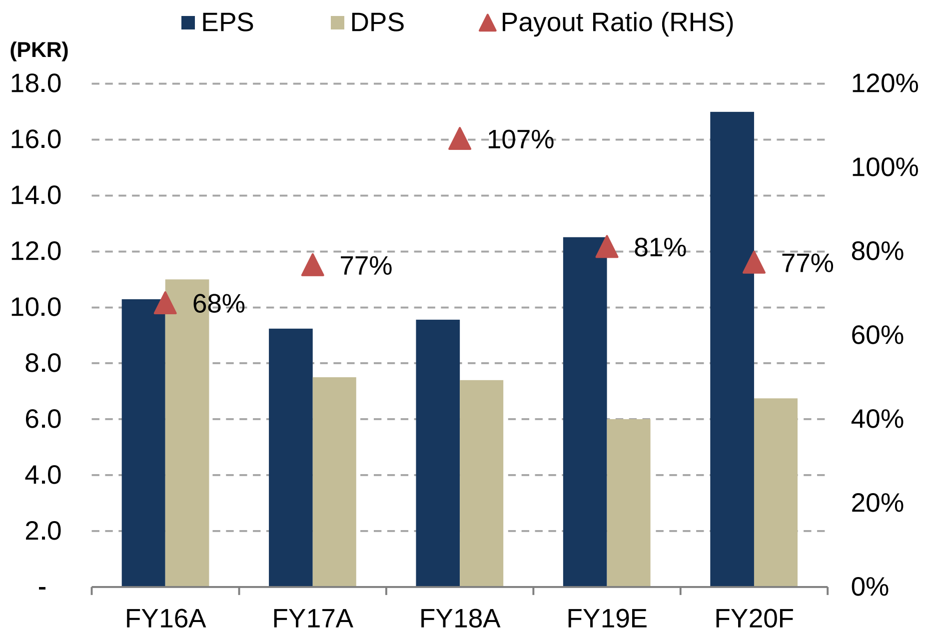
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	99,999	113,627	80,159
Gross Profit	18,279	25,193	28,570
Finance Cost	4,432	6,701	6,852
Share of Profit from Associates	(280)	(264)	2,836
Post Tax Profit	11,665	16,147	21,835
Balance Sheet			
Shareholder's Equity	39,034	51,251	67,403
Interest Bearing Liabilities	62,908	60,103	75,585
Total Liabilities	146,972	130,238	124,456
Current Assets	121,849	107,543	119,355
Non-Current Assets	64,156	73,946	72,504
Total Assets	186,006	181,489	191,859

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings	PKR/Share	9.6	12.5	17.0
Dividend	PKR/Share	7.4	6.0	6.8
Book Value	PKR/Share	33.7	44.3	58.2
Price to Earning	x	9.6	7.2	5.3
Price to Book	x	2.7	2.0	1.5
Net Margins	%	18.3	22.2	35.6
Dividend Yield	%	8.0	6.7	7.5

Source: Company Financials, AHL Research

Exhibit: Payout Decline amid Equity Requirements for Coal Plants



Source: Company Financials, AHL Research

Oil and Gas Marketing Companies

Tumbling Volumes after Price Escalation & FO Demise

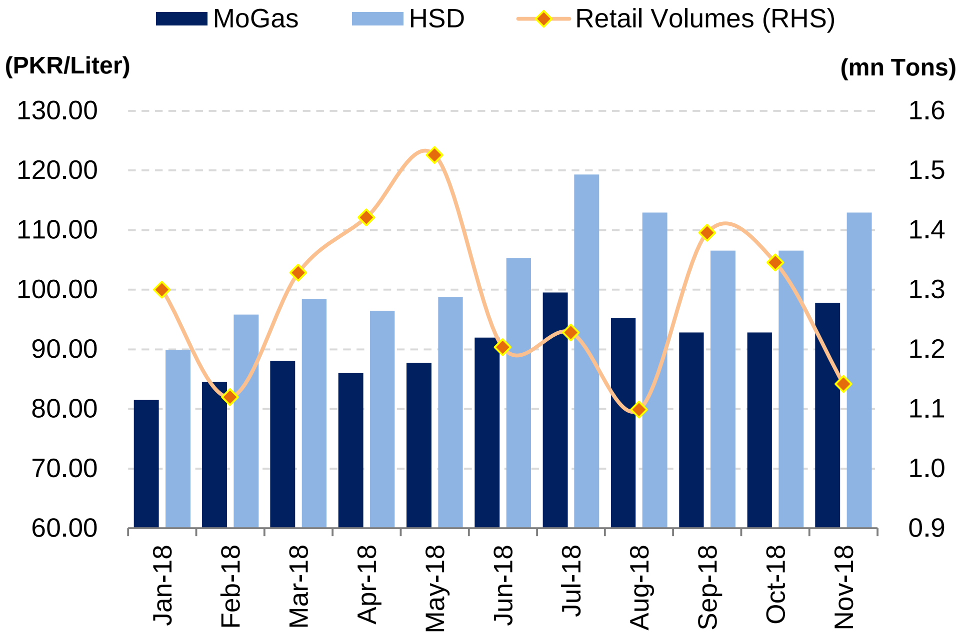
Key Investment Theme:

- **Downturn in OMC sales:** During last 3 years, retail sales volume of OMCs grew at a CAGR of 16% due to consistency in economic development, double digit growth in vehicle sales and lower prices of petroleum products. However, this time around retail volumes have started receding due to surge in prices of petroleum products on the back of i) PKR depreciation, ii) higher petroleum product prices in PKR, iii) increase in dumping of High Speed Diesel (HSD) from Iran, and iv) high base affect. During 5MFY19, Mogas, HSD and FO sales have witnessed a drastic decline of 2%, 20% and 68%, respectively. We expect industry volumes of Motor Spirit to improve by 5% YoY during FY19 whereas High Speed Diesel and Furnace Oil volumes may fall by 5% YoY and 60% YoY, respectively.
- **Margin revision of regulated products:** In the beginning of FY19, regulators increased margins of MS and HSD by 3.5% and 9.5% to a uniform 2.64/liter. Increase in ex-refinery prices of MS, HSD and FO due to surge in international oil prices have resulted in inventory gains. We expect uptick in inflation to be beneficial for the OMCs sector as margin revision is linked with CPI.
- **Profitability facing stiff challenges:** Currently, the dynamics of the sector have turned challenging due to a change in sales mix of power generation (reduction in share of FO in power generation) and improving energy situation (induction of new Coal and Gas based power plants) of the country keeping demand for both black and white oil down. After considering the facts, we have revised down our earnings estimates of the OMC universe by 4%.
- **Double-digit UFG losses stage a comeback:** In the past few quarters, especially with the advent of higher RLNG in the system, domestic gas utilities have once again been confronted with rising UFG losses which appears negative for the bottom-line. Albeit, prior years (FY13-17) UFG revision to 7.6% as opposed to 4.5% and materialization of RLNG III remain key triggers for SNGP and SSGC.

Key Risks (Oil Marketing):

- Arrival of smuggled fuel and rise in product prices may impact volumes / profitability of the sector.
- Decline in international oil price may result in inventory loss.
- Devaluation of PKR against USD can lead to exchange losses.

Exhibit: Retail Price Vs Retail Volumes



Source: Company Financials, AHL Research

Attock Petroleum Ltd.

Capturing Retail Fuel Market Share

Target Price	PKR	509.1
Market Price	PKR	413.3
Upside	%	23.2
PSX Code		APL

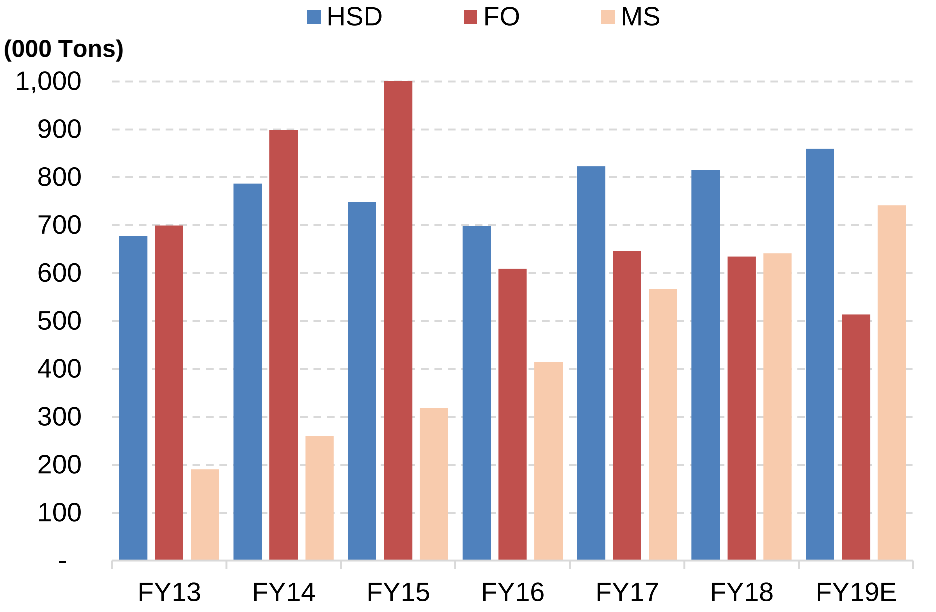
Key Investment Theme:

- **Low risk and high return investment case:** Despite industry facing stiff challenges and volumetric decline, APL remains shielded from current scenario given continuous expansion in storage capacity and retail outlets resulting in growing market share. During 5MFY19, APL's market share has increased to 10.7% compared to 7.9% in 5MFY18 on account of 15% growth in Mogas volumes while HSD and FO's volumetric decline has below prevailing industry average.
- **Strong customer base:** APL is fortunate of being a preferred fuel supplying partner for the defense sector of Pakistan for MS, HSD, HOBC and JP-1. Alongside this, the company has fixed customers of furnace oil (FO) like Attock Gen Limited and other industries. Rising demand from fixed customer base together with the company exploring untapped areas (that is, expanding retail outlets), has kept it one step ahead of its competitors. On the other hand, improving infrastructure development and road networks will keep APL's asphalt demand upwards given its track record of being a key supplier for the Peshawar Karachi Motorway project.
- **Immune from circular debt crisis:** The circular debt issue continues to haunt the sector which has caused liquidity shortage and made it difficult for companies to expand their operations. On the flipside, APL remains immune to the circular debt situation amid majority of the sale arising from retail outlets.
- **Deregulated products and low exchange losses to support bottom-line:** Despite volumetric decline in FO sales, we expect bottom-line of the company to increase by 4% YoY amid high margin on deregulated product (asphalt) and increase in margins of MS and HSD by 3.5% and 9.5%, respectively. Moreover, the company purchases fuel from its related party Attock Refinery Limited, which reduces reliance on imported fuel and keeps the company safe from major exchange losses.

Key Risks:

- Rise in product prices might dent volumetric growth.
- Lack of storage capacity to curb volumetric growth.
- A depreciation in the value of PKR against USD can lead to exchange losses.

Exhibit: Volumes



Source: Company Financials, AHL Research

Attock Petroleum Ltd.

Capturing Retail Fuel Market Share

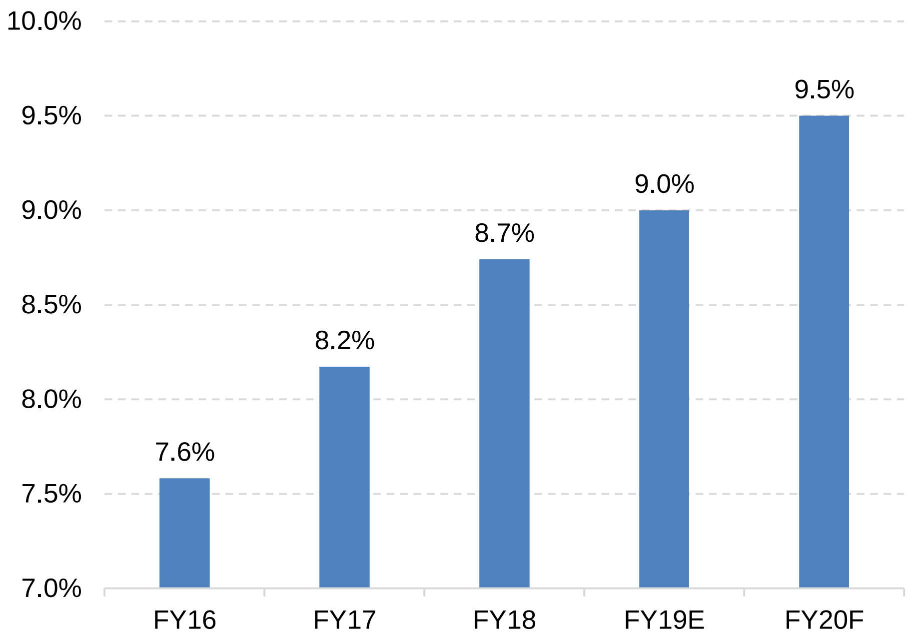
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	177,344	229,230	260,632
Gross Profit	9,743	10,023	11,305
Other Income	885	854	846
Finance Income	1,242	1,694	1,873
Post Tax Profit	5,656	5,857	6,217
Balance Sheet			
Shareholder's Equity	18,418	20,957	23,441
Interest Bearing Liabilities	-	-	-
Total Liabilities	27,714	35,288	39,986
Current Assets	38,149	48,290	55,471
Non-Current Assets	7,983	7,955	7,956
Total Assets	46,131	56,245	63,427

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings	PKR/Share	56.8	58.8	62.5
Dividend	PKR/Share	33.2	35.0	37.5
Book Value	PKR/Share	185.0	210.6	235.5
Price to Earning	x	8.7	7.0	6.6
Price to Book	x	2.7	2.0	1.8
Net Margins	%	3.2	2.6	2.4
Dividend Yield	%	8.1	8.5	9.1

Source: Company Financials, AHL Research

Exhibit: Rising Market Share



Source: Company Financials, AHL Research

Sui Northern Gas Pipelines Ltd.

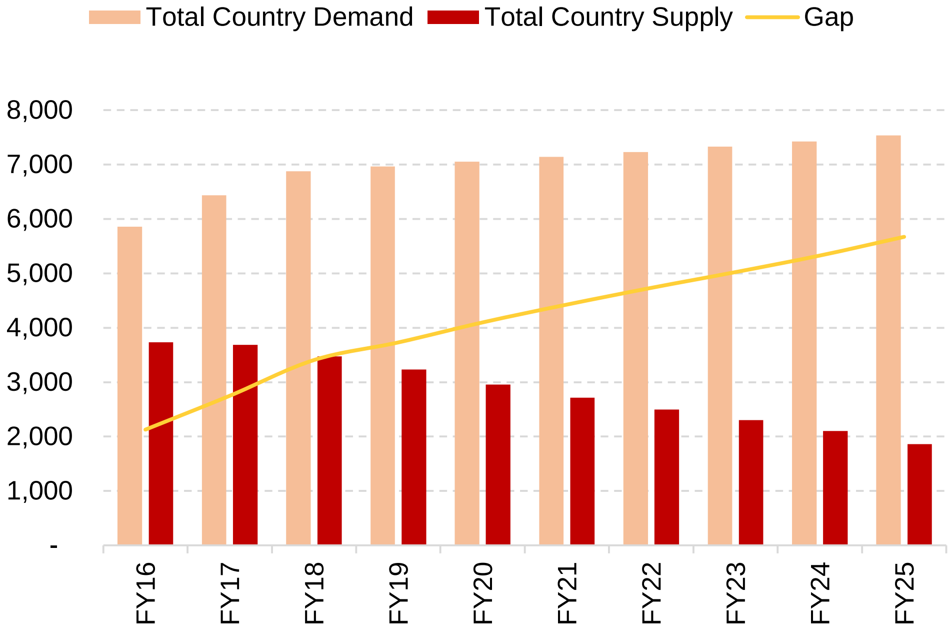
Ensuring the Indispensable Role of Gas Supply

Target Price	PKR	96.2
Market Price	PKR	77.5
Upside	%	24.1
PSX Code		SNGP

Key Investment Theme:

- **RLNG; a market with unmet demand:** Pakistan's gas potential is far from being realized. As per latest World Bank data, only 43% of the population has access to clean fuel for cooking whereas discovered reserves of natural gas continue to deplete. This, along with other cost and efficiency benefits, has rendered import of RLNG a natural choice. Hence, a need for RLNG III, a PKR 175bn pipeline stretching from Karachi to Lahore, appears real. Given the nature of SNGP's business model whereby earnings are determined using a ROA-based formula, potential investment in the project offers stunning riches for the company.
- **Gas tariff hike to counter some cash flow issues:** With gas prices unchanged for several years until recently despite costs going up and the Pak government struggling to steer the economy in the right direction financially, receivables of the companies from GoP made it hard to manage working capital requirements. Hence, the recent gas tariff hike will relive SNGP as it will compress the deficit filled in by the government to establish the revenue required under ROA-based formula.
- **High CAPEX for transmission to counter rising UFG losses:** With the Authority (OGRA) allowing a massive capital expenditure for transmission mains and development as per the DERR for FY19, we believe earnings hit from double digit UFG losses may be cushioned. We do highlight that as circumstances indicate rising levels of UFG (9MFY18 average at 10.8%), we have assumed an average UFG of over 10% over our investment horizon (11% in FY19).
- **BUY recommendation at current levels:** Our DCF-based TP has been revised to PKR 96/share to take account of a higher RFR in-line with the rising interest rate scenario. As of last closing, the stock offers an upside of 24%, we recommend BUY.

Exhibit: OGRA's Indeginous Gas Forecast



Source: OGRA, AHL Research

Key Risks:

- Postponement or annulment of the RLNG III pipeline (SNGP's share is PKR 110bn).
- Uncontrollable increase in UFG losses; every 1% increase in our UFG assumption erodes bottom-line by PKR 1.7-2.0bn.
- Massive surge in oil prices or higher than expected PKR depreciation to push up the quantum of UFG as a result of upswing in weighted average cost of gas.

Sui Northern Gas Pipelines Ltd.

Ensuring the Indispensable Role of Gas Supply

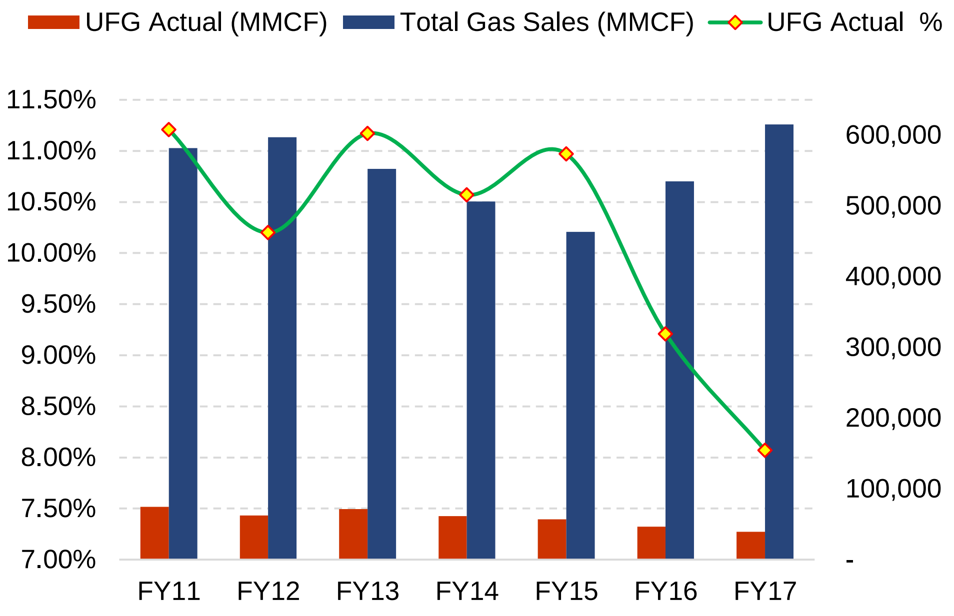
PKR mn	2017A	2018E	2019F
Income Statement			
Net Sales	346,308	506,291	884,410
Gross Profit	19,699	23,312	26,851
Distribution expenses	5,646	6,535	7,588
Administration expenses	6,426	7,597	8,985
Post Tax Profit	8,614	7,938	9,476
Balance Sheet			
Shareholder's Equity	10,596	14,728	20,398
Interest Bearing Liabilities	55,723	91,283	163,033
Total Liabilities	313,591	357,522	482,011
Current Assets	157,105	162,816	211,298
Non-Current Assets	167,081	209,434	291,111
Total Assets	324,187	372,250	502,409

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	13.6	12.5	14.9
Dividend	PKR/Share	6.0	6.0	6.0
Book Value	PKR/Share	16.7	23.2	32.2
Price to Earning	x	11.0	6.2	5.2
Price to Book	x	8.9	3.3	2.4
Net Margins	%	2.5	1.6	1.1
Dividend Yield	%	4.0	7.7	7.7

Source: Company Financials, AHL Research

Exhibit: SNGP's UFG over the years



Source: Company Financials, AHL Research

Textile Composite

Rupee Devaluation To Make Exports Competitive

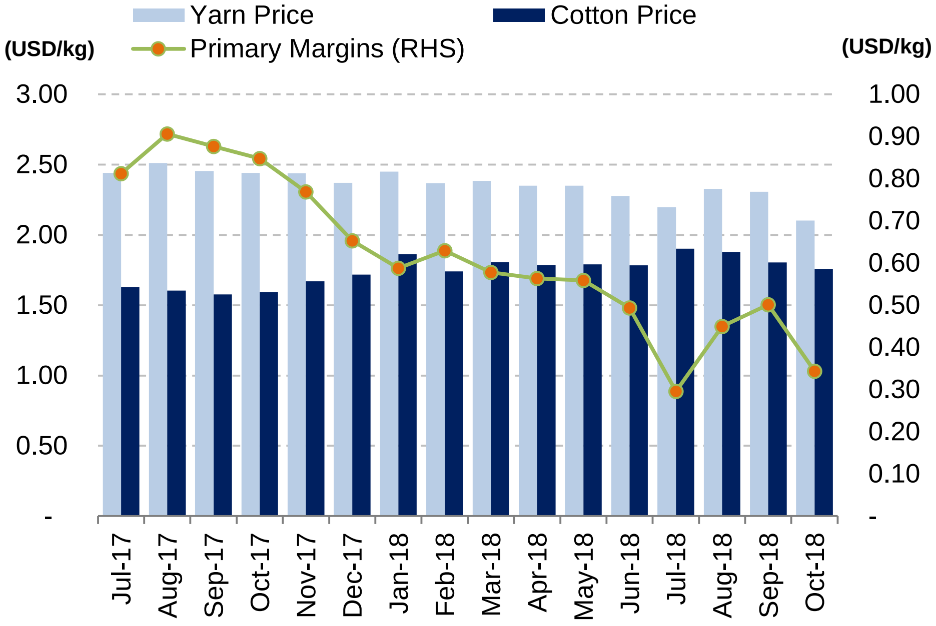
Key Investment Theme:

- **Massive Rupee depreciation favorable for the sector:** Textile exports constitute over 60% of Pakistan's total exports. In CY18TD, the PKR has depreciated by 20% against USD to PKR 139/USD, which is set to have a significant impact on sector profitability and improve competitive position of the entire textile sector. We have also witnessed a massive increase in price of cotton yarn and fabric by 35% YoY and 30% YoY resulting in higher gross margins. However, prices of ready-made garments have so far remained depressed.
- **Increasing exports of value added products**: Despite significant rupee devaluation, textile exports exhibited weak performance during 4MFY19 (growth of 0.41% YoY). The decline in exports could be attributable to lack of demand for yarn from China. Market sources suggest that diversion of textile orders from China to Cambodia, Bangladesh, and Vietnam resulted in lower demand for Pakistani yarn.
- **Incentives for exporters:** The government is focused on pursuing a strategy to enhance exports by providing maximum benefits to exporters. To encourage exports, the government extended export rebate package for the next three years, reduced the cost of doing business by slashing custom / regulatory duties and sales tax on imported input materials (cotton, polyester, fibers) as well as promised concessionary gas prices for the 5 export oriented sectors. On the other hand, these sectors have an advantage to avail borrowing on fixed interest rates like export refinance scheme at 3% and long term finance facility at 6.0% which is lower than current discount rate of 10.5%.
- **Pakistan largest ever private sector IPO in the offing:** Interloop (largest socks manufacturer outside China with 90% exports) intends to issue 109mn shares at a floor price of PKR 45/share to generate PKR 4.9bn in order to establish a hosiery division and set up a new denim plant. This signals the importance of the stock exchange as a preferred choice for raising capital in the country.

Key Risks:

- Volatility in Cotton and Polyester prices.
- Delay in refund payments.
- Discontinuation of GSP+ Status.
- Appreciation of PKR against USD can lead to exchange losses and margin attrition.

Exhibit: Primary Margins



Source: Company Financials, AHL Research

Nishat Mills Ltd.

Healthy Margins to Lead Core Income

Target Price	PKR	166.0
Market Price	PKR	136.5
Upside	%	21.6
PSX Code		NML

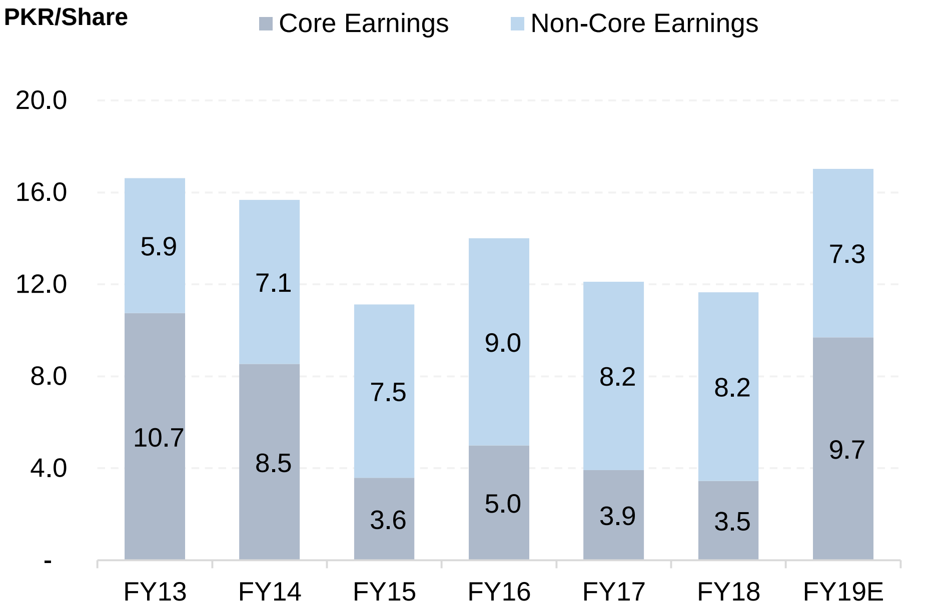
Key Investment Theme:

- **Escalating core income :** We expect core earnings of the company to counterbalance decline in non-core as we have revised down our dividend assumptions from DGKC and NPL. The rise in core earnings can be attributable to i) higher margins on yarn and fabric, ii) export rebate package for the next three years, iii) subsidized gas prices, and iv) significant PKR devaluation which will result in exchange gains as we expect the PKR to close at 147/USD by end of FY19.
- **Subsidized gas price for exporters:** To revive export oriented sectors, the incumbent government announced a reduction in energy cost by setting uniorm gas price at PKR 600/mmbtu. We believe for export oriented sector, NML would stand as a major beneficiary in the textile universe and we expect this to translate into earnings of PKR 2.13/share, assuming change in gas price will be effective from Dec'18-Jun'19.
- **Portfolio value :** We value NML on SOTP where a major portion of valuation is sourced from portfolio value. NML has diversified investments (Power, Cements, Banks, Construction, Textile, Insurance, Dairy, Healthcare) and is now moving into the auto industry. The portfolio contributes 55% towards the total estimated value of PKR 166/share.
- **PKR depreciation keeping profitability on track:** We expect NML to post earning per share of PKR 17.0 / 20.6 / 22.9 in FY19 / FY20 / FY21 and with that, our SOTP based target price has been revised upwards to PKR 172/share.

Key Risks:

- Delay in Refund Payment Orders.
- Cessation of Export Incentive Package.
- Rise in Cotton Price.

Exhibit: Core & Non-Core Earnings



Source: Company Financials, AHL Research

Nishat Mills Ltd.

Healthy Margins to Lead Core Income

PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	53,729	63,672	67,693
Gross Profit	5,550	8,969	9,415
Other Income	4,103	3,269	4,642
Finance Cost	994	893	867
Post Tax Profit	4,097	5,986	7,259
Balance Sheet			
Shareholder's Equity	75,713	77,682	82,479
Interest Bearing Liabilities	19,843	16,896	18,415
Total Liabilities	27,023	26,004	27,468
Current Assets	29,043	32,996	39,989
Non-Current Assets	73,693	70,681	69,950
Total Assets	102,736	103,678	109,939

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings	PKR/Share	11.7	17.0	20.6
Dividend	PKR/Share	6.0	7.0	7.0
Book Value	PKR/Share	215.3	220.9	234.6
Price to Earning	x	12.1	8.2	6.8
Price to Book	x	0.7	0.6	0.6
Net Margins	%	7.6	9.4	10.7
Dividend Yield	%	4.3	5.0	5.0

Source: Company Financials, AHL Research

Exhibit: Portfolio Value

Companies	Holdings	Portfolio Value
Nishat Power	51.0%	5,148
DG Khan Cement	31.4%	14,282
MCB	7.6%	17,383
Pakgen Power	27.6%	1,774
Nishat Chunian	13.6%	1,999
Adamjee Insurance	0.03%	5
Lalpir Power	28.8%	1,778
Others		3,945
Total Value of Investments		46,312
Total Value of Investments - PKR/Share		132
Discount Applied		30%
Contribution towards fair value - PKR/Share		**92.2**

Source: Company Financials, AHL Research

Engineering (Steel)

Metal Rock Noise Yet to Die Down

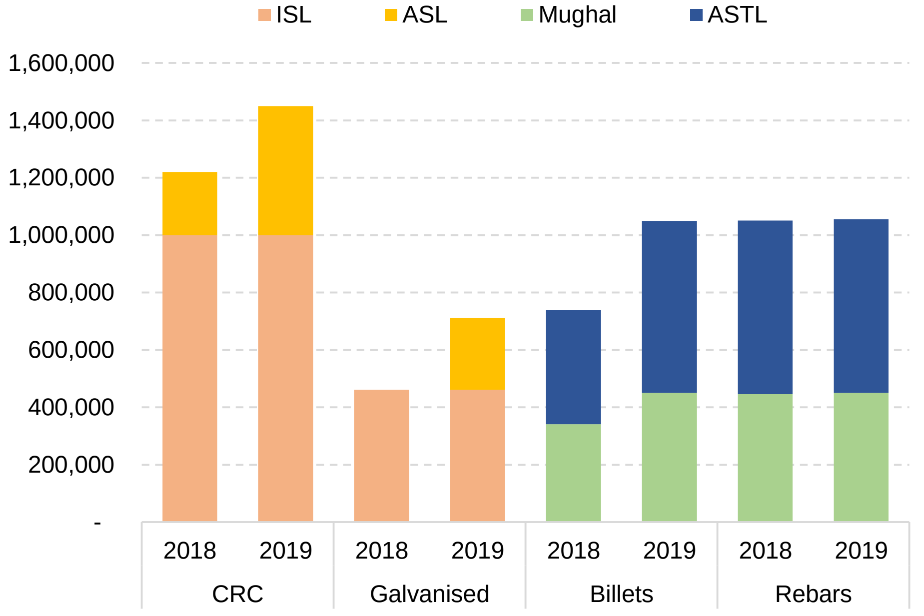
Key Investment Theme:

- **Demand may shrivel temporarily:** Current scenario hints that the domestic steel industry is set to undergo a period of consolidation, similar to one the cement sector may experience. Peculiarly, specifics remain identical as well; economic slowdown restricts demand for steel as buying power of individuals contracts amid rising interest rates and slowing GDP.
- **Long term bets on demand translate into capacity expansion:** That said, as a growing economy Pakistan holds tremendous potential and in lieu of that, the domestic steel industry remains on course to expand as various high level projects (construction of highways, railway tracks, dams, RLNG pipelines etc.) utilize steel; ASTL, Mughal and ASL are key listed players undertaking expansion.
- **Pricing power derails:** Relentless depreciation in the PKR against USD, re-imposition of US sanctions on Iran and hence dumping from the latter, riddance of Russian steel at tremendously competitive prices together with risk of export substitution by China in the midst of potential economic slowdown going forward, as well as excess capacity within the country will continue to upend the pricing power of local steel players.
- **Margins wearing away:** Although international steel prices have recently maintained the firm upsurge, unclear demand outlook in the local market tagged with unfair competition from dumped and smuggled steel products has waned off margins. Moreover, with the Pak Rupee expected to lose further ground against the Greenback, imported raw material costs will continue to dilute margins and hence, profitability would witness retribution.
- **Materialization of Housing scheme:** With initial application process for PM's Naya Pakistan housing scheme concluding by 21st Dec'18 and the incumbent government indicating manifestation soon, we believe this remains a key upside and forecast potential demand for rebars from construction of 100sq yards single story 250,000 houses per annum at 1.25mn tons.

Key Risks:

- Steel margins are exposed to international volatility given swings in prices of scrap and other raw materials, as well as end product prices which dictates competition from imports.
- Capacity addition by new players can erode market share and potentially compel price cuts.

Exhibit: Expected Capacity Additions



Source: Company Financials, AHL Research

Amreli Steels Ltd.

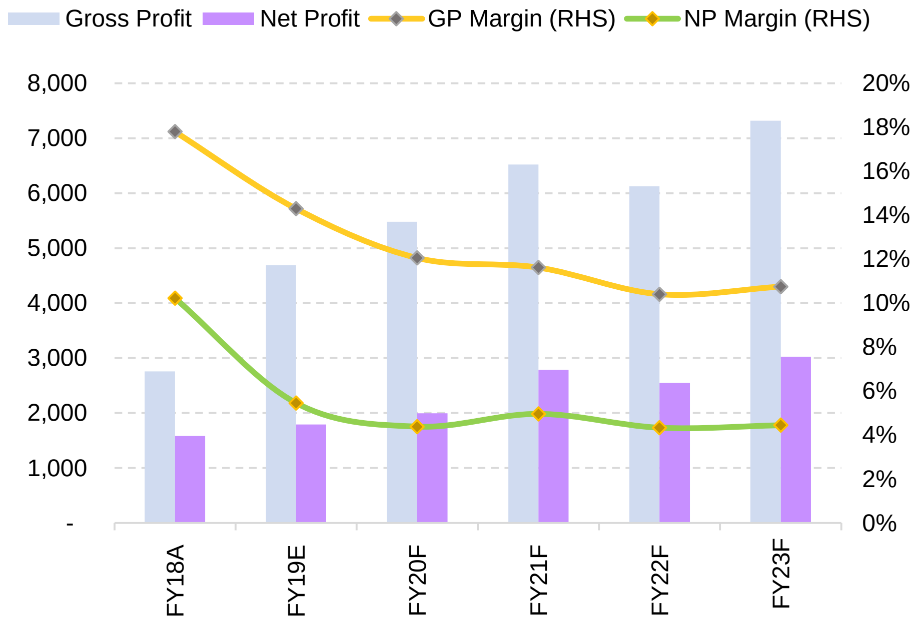
Dreaming of Million Tons

Target Price	PKR	68.8
Market Price	PKR	52.0
Upside	%	32.3
PSX Code		ASTL

Key Investment Theme:

- **Volumes to remain robust despite lack of clarity on demand growth:** ASTL's primary focal point has always been the quality assurance of its rebars. Although domestic demand seems to have hit some roadblocks as several housing schemes have been halted and construction of high rises in Karachi was banned until a day back, in addition to slowdown in the economy, volumes of the company are expected to grow as they continue to convince customers to opt for premium quality. We project volumes to display a 3-Yr CAGR of 42% to 495k tons (FY18: 172k tons).
- **Expansion to a million ton giant:** The company plans to become the first million ton rebar facility of the country. In order to achieve said status, ASTL has expressed desire to invest another PKR 6.5bn for a new 500k tons per annum rolling mill, subject to financial closure. Given the plant construction will take up to 3 years, we have assumed operations to commence in FY23. Albeit, utilization will remain low in the first year post COD as i) the company will not have enough capacity to manufacture billets, and ii) it takes time to realize economies of wide scale production.
- **No longer dictating prices:** Unlike last year, ASTL has gradually come under pressure whereby its margins have been receding sequentially. In particular, persistent depreciation of the Pak Rupee against the USD has not only augmented imported raw material costs, fierce competition in North and smuggling from Iran in South has also diluted the company's mighty pricing power. In consideration of this, we believe margins may average at 12% between FY19-FY23 vs. 18% in the preceding 5 years. Albeit, the company continues to enjoy superior margins vis-à-vis competitors.
- **Valuations open up as stock market took a beating:** Having incorporated the above, we have arrived at a DCF-based Dec'19 target price of PKR 69/share, offering an upside of 31% from current levels.

Exhibit: Bottom-line Growth Robust Inspite of Weaker Margins



Source: Company Financials, AHL Research

Key Risks:

- Delay in expansion blueprint would alter forward earnings and target price of the company.
- Market penetration by new players and capacity expansion by existing players can squeeze market share and build pressure on margins as pricing power wanes off.

Amreli Steels Ltd.

Dreaming of Million Tons

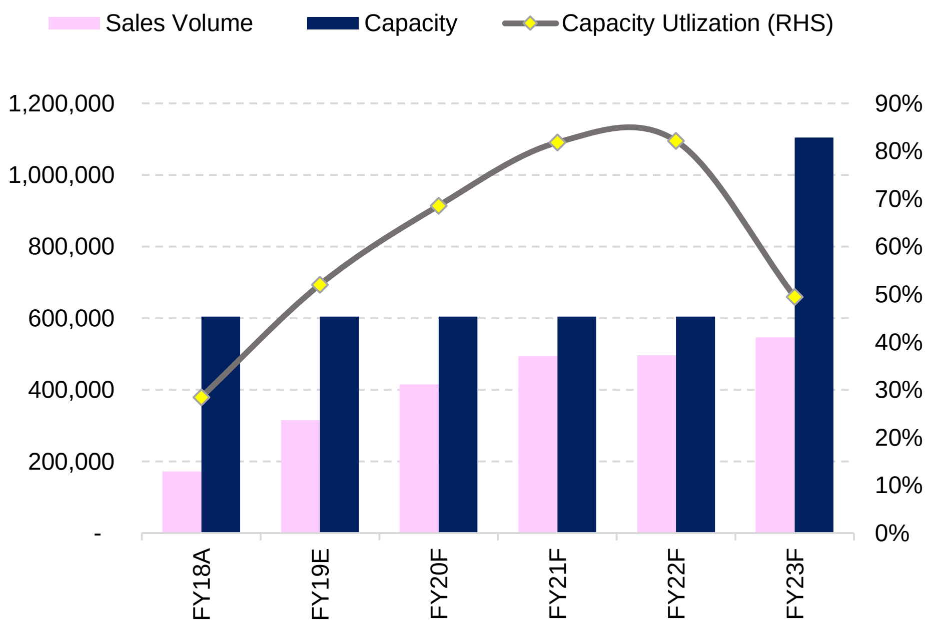
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	15,501	32,789	45,481
Gross Profit	2,758	4,687	5,482
Distribution expenses	378	705	851
Administration expenses	409	550	664
Post Tax Profit	1,585	1,790	1,994
Balance Sheet			
Shareholder's Equity	12,880	14,016	14,822
Interest Bearing Liabilities	10,033	8,089	8,074
Total Liabilities	13,763	13,137	13,908
Current Assets	10,935	12,463	13,454
Non-Current Assets	15,707	14,691	15,276
Total Assets	26,643	27,153	28,730

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings	PKR/Share	5.3	6.0	6.7
Dividend	PKR/Share	2.2	4.0	4.5
Book Value	PKR/Share	43.4	47.2	49.9
Price to Earning	x	13.2	8.7	7.8
Price to Book	x	1.6	1.1	1.0
Net Margins	%	10.2	5.5	4.4
Dividend Yield	%	3.1	7.7	8.7

Source: Company Financials, AHL Research

Exhibit: Sales to Grow Despite Economic Slow Down



Source: Company Financials, AHL Research

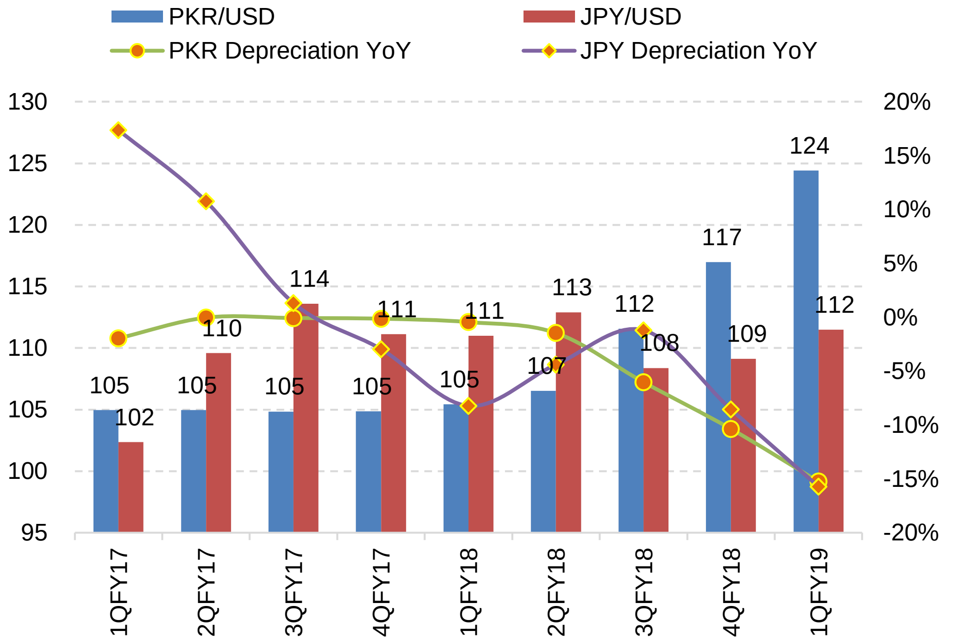
Automobile Assemblers

Speed Breaker Ahead

Key Investment Theme:

- **Macro pressure to dent volumes:** To take control of the current economic situation, the government has taken various steps like i) increase in regulatory duty on imported products, ii) increase in interest rates by 425bps to 10.0% in CY18TD, iii) PKR depreciated by 20% in CYTD to encourage exporters and discourage importers. Albeit, in the immediate year this will result in GDP slowdown which is expected amid decline in large scale manufacturing and lower production from important crops. During 5MFY19, total car sales clocked-in at 100,643 units, down by 4% YoY mainly amid ban on non-filers to purchase new cars. We expect industry car sales to fall by 10% YoY to 233K units.
- **PKR depreciation eroding gross margins**: Despite increase in car prices by an average of 10-15%, gross margins of the sector tumbled and as a result, sector profitability plunged by 20%. The pressure on gross margins stemmed from i) Higher steel prices (+4% YoY to USD 704/ton), ii) Increase in regulatory duty on raw materials, and iii) PKR depreciation of 20% in CY18TD against USD. We anticipate companies to take a hit of rupee depreciation as price pass on will not be easy for existing players in current circumstances.
- **Better pricing power for new entrants:** We expect new players (KIA & Hyundai) to start operations by early CY20 and we believe new players will grab market share of existing players as they will have better pricing power given significant duty concession available to new players as per Auto Policy 2016-21.
- **Profitability faces stiff challenges:** Currently, sustainability of margins and profitability remains challenging, despite existing players gearing up to keep volumetric growth intact by planning to launch new cars like Suzuki Alto, Toyota Corolla (12th Generation), and Honda Brio. We maintain 'BUY' stance on INDU and HCAR whereas we have revised our stance on PSMC to 'Sell'.

Exhibit: Currency Depreciation



Source: Company Financials, AHL Research

Key Risks:

- Volatility in USD and JPY.
- Delay in introduction of new cars by existing players or new players grabbing market share.
- Unexpected movement in steel price.

Indus Motor Company Ltd.

Margins Sustainability; A Key Challenge

Target Price	PKR	1,364.6
Market Price	PKR	1,184.9
Upside	%	15.2
PSX Code		INDU

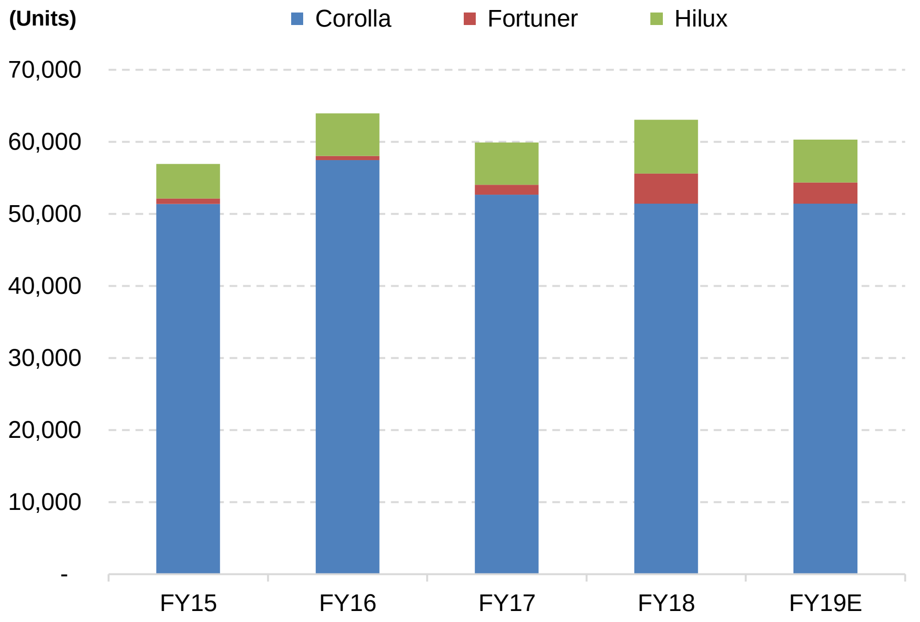
Key Investment Theme:

- **Change in sales mix:** During 5MFY19, the company managed to increase its volumetric sales by 7% YoY to 27,307 units due to fulfilment of previously booked orders of Corolla (up by 10% YoY). We expect Corolla sales to remain constant while Fortuner and Hilux sales may drop by 30% and 20% YoY, respectively post election year phenomenon. On the other hand, latter half would be more crucial for OEM's given ban on non-filers, depreciation of PKR against USD and impact of interest rate hikes.
- **Depreciation risk to overcome:** After multiple rounds of devaluation during the year, the company easily passed on the impact of higher input cost. However, despite the company holding a strong presence in the market with robust demand of its flagship (Corolla), we believe it will not be able to completely pass on prices of rise in input cost and would have to bear the brunt of currency depreciation.
- **Capacity expansion:** The management of the company approved a capital expenditure of PKR 3.3bn to enhance its production capacity from 65,000 units to 76,000 units on double shift basis which is expected to yield benefits during FY20-21. During FY19, we expect capacity utilization level of the company to remain above 90%.
- **Lower multiple compared to peers:** The stock is currently trading at FY19F PE of 7.9x compared with industry PER of 8.7x along with highest dividend yield of 10.7% in automobile assemblers sector.

Key Risks:

- Depreciation of PKR / USD and PKR / JPY.
- Sharp increase in steel prices will significantly impact the company's bottom-line.
- Arrival of new players might dilute market share.

Exhibit: Total Car Sales Break-up



Source: Company Financials, AHL Research

Indus Motor Company Ltd.

Margins Sustainability; A Key Challenge

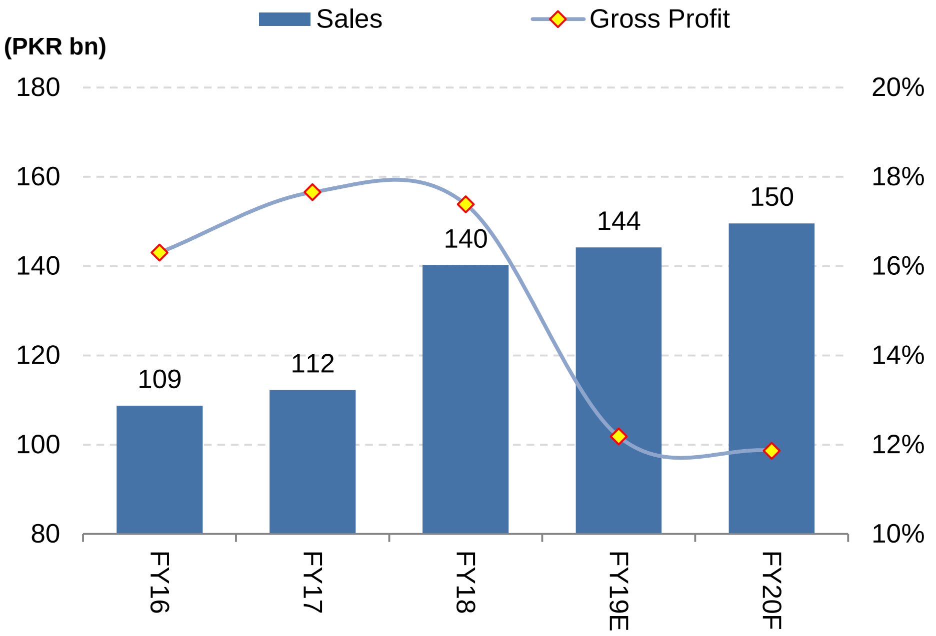
PKR mn	2018A	2019E	2020F
Income Statement			
Net Sales	140,208	144,182	149,581
Gross Profit	24,377	17,524	17,704
Other Income	3,901	4,081	4,620
Finance Cost	572	696	607
Post Tax Profit	15,772	11,638	12,266
Balance Sheet			
Shareholder's Equity	36,744	40,119	43,740
Advances from customers	27,491	19,789	19,709
Total Liabilities	45,183	39,657	40,710
Current Assets	74,543	71,707	76,263
Non-Current Assets	7,384	8,069	8,187
Total Assets	81,927	79,776	84,450

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2018A	2019E	2020F
Earnings	PKR/Share	200.7	148.1	156.1
Dividend	PKR/Share	140.0	105.0	110.0
Book Value	PKR/Share	467.5	510.4	556.5
Price to Earning	x	7.1	8.0	7.6
Price to Book	x	3.0	2.3	2.1
Net Margins	%	11.2	8.1	8.2
Dividend Yield	%	9.8	8.9	9.3

Source: Company Financials, AHL Research

Exhibit: Sales Vs Gross Profit Margins



Source: Company Financials, AHL Research

Chemical Sector

PKR Depreciation to Bode Well Margins

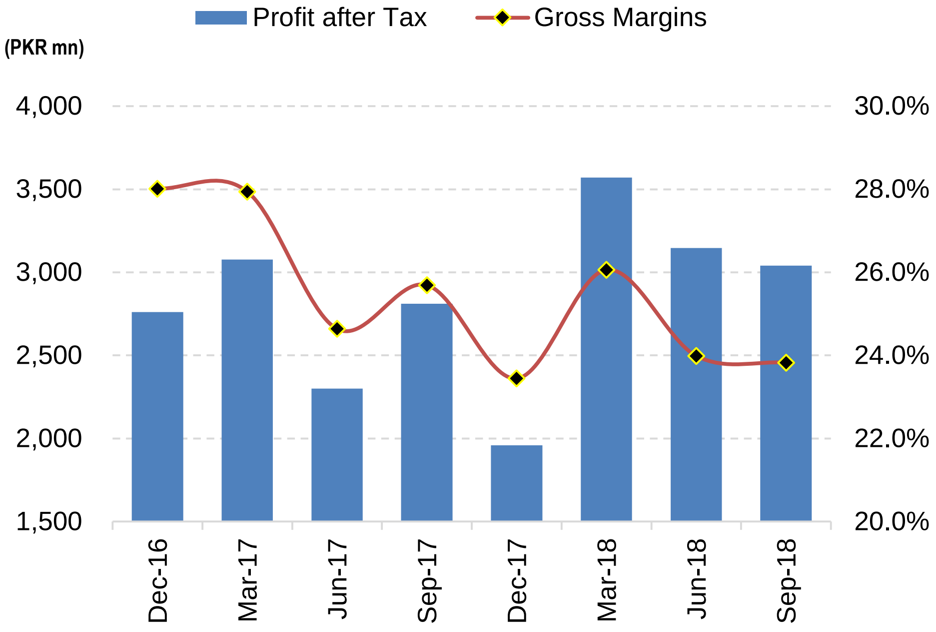
Key Investment Theme:

- **PKR depreciation to bode well for margins:** The pricing of chemicals is denominated in US dollar, therefore PKR depreciation will be beneficial for the chemical sector.
- **Economic slowdown; lower impact on local industry:** We forecast 4% GDP growth in 2019. The slowdown in growth will however not have any particularly dampening effects on the local industry's production. This is because of the fact that local production is not enough to fulfill the country's demand. Pakistan imports approximately ~112tons of PVC (36% of total demand) and ~235tons of PTA (~32% of total demand).
- **Better margins are expected in 2019:** 2018 told a story of good fortunes for the petrochemical industry, as despite higher oil prices, margins did not show significant downturn. International PTA and PSF margins increased by 54% and 0.4% YoY, respectively. However, international margins of PVC declined by 5.1% YoY. In the upcoming year (2019), we expect better margins due to growing demand and lower expected oil prices (vis-à-vis current prices). Additionally, further PKR depreciation will also have a positive bearing on the profitability of the sector.

Key Risks:

- Lower than expected PKR depreciation.
- Lower international Petrochemical margins.
- Higher than expected increase in gas prices.

Exhibit: Gross Margins & Profit after tax



Source: Company Financials,, AHL Research

Lotte Chemical Pakistan Limited

Margins Galore

Target Price	PKR	25.3
Market Price	PKR	18.4
Upside	%	37.6
PSX Code		LOTCHEM

Key Investment Theme:

- **Growing demand; capacity addition can not be ruled out:** Local demand of PTA has reached 700k tons per annum and is expected to grow to 735k tons in 2019. The improved power availability and anti-dumping on Polyester Staple Fiber (PSF) has aided the domestic demand. We believe as demand picks up, capacity addition by LOTCHEM can not be ruled out.
- **Long-term PTA margin at USD 140/ton:** Currently, PTA margins are hovering around USD 180/ton. We expected the average margins will settle at USD 140/ton going forward. Strong polyester demand along with short supply in the region will keep the PTA prices stable, we view.
- **Leverage free company:** The company has zero debt and PKR 8,425mnof cash on its balance sheet (as of Sep'18). Therefore, the rising interest rate environment will be beneficial for the company.
- **Surplus power sale may potentially add ~PKR 0.20/share:** K-Electric has entered in to a Power Acquisition Contract (PAC) with Lotte Chemical Pakistan Ltd to procure 11MW to 14MW power (11MW based on natural gas and 3MW if RLNG will be available) on take and pay basis for 5 years. If this materializes, it will positively impact the company's bottom line by PKR ~0.20/share. However, we have not incorporated this in our financial model yet.

Key Risks:

- Higher than expected increase in gas prices.
- Change in duty structure (currently 5% custom duty is charged on import of PTA).
- Lower than expected PKR depreciation.
- Lower international PTA margins.

Exhibit: Sensitivity Analysis

	EPS* (PKR)	TP (Dec-19)
PTA margins @ USD 100/ton	0.76	14.32
PTA margins @ USD 110/ton	1.12	17.19
PTA margins @ USD 120/ton	1.46	19.95
PTA margins @ USD 130/ton	1.79	22.64
PTA margins @ USD 140/ton*	**2.13**	**25.34**
PTA margins @ USD 150/ton	2.49	28.29
PTA margins @ USD 160/ton	2.83	30.99
PTA margins @ USD 170/ton	3.19	33.88
PTA margins @ USD 180/ton	3.55	36.77

Source: AHL Research, * 2019F

Lotte Chemical Pakistan Limited

Margins Galore

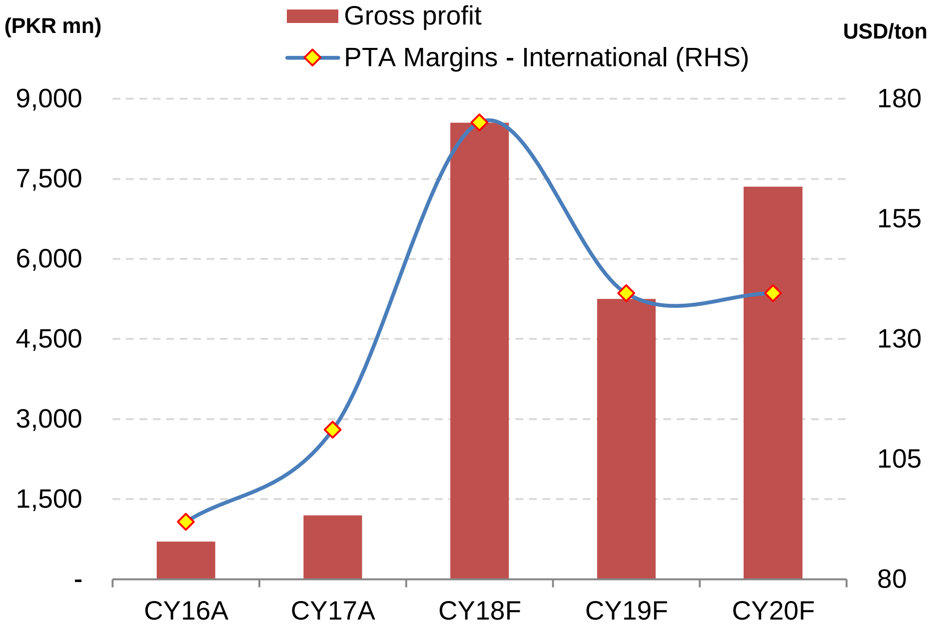
PKR mn	2017A	2018E	2019F
Income Statement			
Sales	37,034	56,123	53,430
Cost of Sales	35,837	47,572	48,180
Gross Profit	1,198	8,552	5,250
Post Before Profit	895	7,278	4,606
Post Tax Profit	412	4,877	3,224
Balance Sheet			
Shareholder's Equity	10,677	13,282	14,841
Current Liabilities	9,766	8,933	8,512
Trade and other payables	9,598	8,764	8,344
Non-Current Liabilities	98	100	99
Current Assets	13,152	15,105	16,419
Non-Current Assets	7,389	7,210	7,033

Source: Company Financials, AHL Research

Ratio Analysis	Unit	2017A	2018E	2019F
Earnings	PKR/Share	0.3	3.2	2.1
Dividend	PKR/Share	0.2	1.5	1.0
Book value	PKR/Share	7.1	8.8	9.8
Price to Earning	x	26.3	5.7	8.7
Price to Book	x	1.0	2.1	1.9
Gross Margins	%	3.2	15.2	9.8
Dividend Yield	%	2.8	8.1	5.4

Source: Company Financials, AHL Research

Exhibit: Gross Profit & International PTA Margins



Source: Company Financials, AHL Research

AHL Universe - Recommendation Summary

Code	Company	Price 7-Dec-18	Target Price (Dec-19)	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	Div. Yield (%) 2019	Div. Yield (%) 2020	P/B (x) 2019	P/B (x) 2020	ROE (%) 2019	ROE (%) 2020
Exploration & Production																			
PPL	Pakistan Petroleum Ltd.	162.5	213.6	31.5	Buy	20.1	25.0	27.9	5.50	12.00	14.00	6.5	5.8	7.4	8.6	1.3	1.2	22.1	21.9
OGDC	Oil and Gas Dev Co.	140.3	196.8	40.3	Buy	18.3	25.5	27.5	10.00	13.00	13.75	5.5	5.1	9.3	9.8	1.0	0.9	18.9	18.3
POL	Pakistan Oilfields Ltd.	463.1	593.0	28.1	Buy	40.1	58.5	65.4	42.50	56.00	64.00	7.9	7.1	12.1	13.8	3.7	3.6	48.7	51.2
MARI	Mari Petroleum Ltd	1,325.3	1,983.6	49.7	Buy	126.8	185.7	226.1	6.00	5.75	6.00	7.1	5.9	0.4	0.5	2.6	1.8	44.0	36.3
Commercial Banks																			
UBL	United Bank Ltd.**	140.0	170.8	22.0	Buy	10.7	20.6	28.4	10.00	12.00	16.00	6.8	4.9	8.6	11.4	0.9	0.8	14.0	17.9
BAFL	Bank Alfalah Ltd.**	48.6	60.1	23.5	Buy	6.8	9.2	9.9	2.03	3.00	5.00	5.3	4.9	6.2	10.3	0.9	0.9	19.2	18.3
MCB	MCB Bank Ltd.**	197.4	230.0	16.5	Buy	15.5	23.1	32.3	16.00	17.00	24.00	8.6	6.1	8.6	12.2	1.5	1.4	17.6	23.5
HBL	Habib Bank Ltd.**	132.5	155.2	17.1	Buy	9.5	16.5	20.7	4.00	8.00	12.00	8.0	6.4	6.0	9.1	0.9	0.9	11.9	14.0
ABL	Allied Bank Ltd.**	96.0	118.5	23.4	Buy	11.7	14.4	17.9	8.00	8.00	9.00	6.7	5.4	8.3	9.4	0.9	0.9	14.2	16.7
NBP	National Bank of Pakistan.**	47.0	54.3	15.6	Buy	9.7	(3.5)	16.2	-	-	5.00	(13.4)	2.9	-	10.6	0.5	0.5	(3.9)	17.4
AKBL	Askari Bank Ltd.**	24.9	28.4	13.9	Buy	3.9	4.9	6.1	1.00	1.00	2.00	5.1	4.1	4.0	8.0	0.8	0.7	16.0	17.7
BOP	The Bank of Punjab**	12.9	18.3	41.6	Buy	2.8	3.9	4.1	-	-	-	3.4	3.1	-	-	0.7	0.6	24.0	20.7
Fertilizer																			
ENGRO	Engro Corporation**	299.5	359.6	20.1	Buy	25.3	37.5	44.1	26.00	24.00	28.00	8.0	6.8	8.0	9.3	0.8	0.8	10.8	11.7
FFBL	Fauji Fert. Bin Qasim	37.7	43.5	15.4	Buy	2.0	3.7	4.7	1.00	2.00	3.00	10.2	8.0	5.3	8.0	2.2	2.0	23.1	26.6
EFERT	Engro Fertilizer	74.2	91.0	22.6	Buy	11.8	12.1	12.1	11.00	11.50	11.50	6.1	6.1	15.5	15.5	2.2	2.2	36.8	36.1
FFC	Fauji Fertilizer Co.	94.3	113.8	20.7	Buy	10.3	12.3	13.9	9.00	11.00	13.00	7.7	6.8	11.7	13.8	3.7	3.5	49.2	53.4
FATIMA	Fatima Fertilizer Co.*	34.2	NC	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
AHCL	Arif Habib Corp. Ltd.*	28.8	NC	na	na	1.8	na	na	2.00	na	na	na	na	na	na	na	na	na	na
Cement																			
LUCK	Lucky Cement Ltd.	469.6	586.5	24.9	Buy	37.7	32.8	30.8	13.00	11.00	11.00	14.3	15.3	2.3	2.3	1.6	1.5	11.8	10.4
FCCL	Fauji Cement Company	22.7	25.3	11.7	Buy	2.5	2.5	2.7	2.00	1.00	1.00	9.0	8.3	4.4	4.4	1.4	1.3	16.2	16.1
ACPL	Attock Cement Ltd.	119.7	140.6	17.5	Buy	32.0	13.4	16.5	8.00	7.00	8.00	8.9	7.3	5.8	6.7	1.0	1.0	12.0	13.9
DGKC	D.G. Khan Cement Co.	89.7	112.7	25.6	Buy	20.2	7.4	9.2	4.25	3.00	3.50	12.1	9.7	3.3	3.9	0.5	0.5	4.2	5.0
KOHC	Kohat Cement Company	88.2	111.0	25.9	Buy	14.8	10.4	11.4	5.00	4.00	4.00	8.4	7.7	4.5	4.5	0.9	0.9	11.3	11.4
MLCF	Maple Leaf Cement	44.2	55.1	24.5	Buy	7.7	4.4	5.0	2.50	3.00	3.00	10.1	8.9	6.8	6.8	1.0	0.9	9.7	10.6
POWER	Power Cement*	7.5	NC	na	na	0.3	na	na	-	na	na	na	na	na	na	na	na	na	na
Oil & Gas Marketing																			
PSO	Pakistan State Oil	235.2	314.5	33.7	Buy	39.5	31.3	35.7	15.00	20.00	25.00	7.5	6.6	8.5	10.6	0.8	0.8	10.8	11.9
APL	Attock Petroleum Ltd.	413.3	509.1	23.2	Buy	56.8	58.8	62.5	33.20	35.00	37.50	7.0	6.6	8.5	9.1	2.0	1.8	29.7	28.0
SNGP	Sui Northern Gas Pipeline Ltd.	77.5	96.2	24.1	Buy	12.5	14.9	14.7	6.00	6.00	6.00	5.2	5.3	7.7	7.7	2.4	1.9	49.7	49.7
Automobile Assembler																			
PSMC	Pak Suzuki Motor Co.	206.1	158.8	(23.0)	Sell	20.8	14.8	14.8	9.00	6.00	6.00	13.9	13.9	2.9	2.9	0.5	0.5	3.9	3.9
INDU	Indus Motor Company	1,184.9	1,364.6	15.2	Buy	200.7	148.1	156.1	140.00	105.00	110.00	8.0	7.6	8.9	9.3	2.3	2.1	30.3	29.3
HCAR	Honda Atlas Cars (Pak) Ltd.	192.1	206.8	7.7	Hold	45.5	22.9	20.8	26.93	9.00	8.00	8.4	9.2	4.7	4.2	1.4	1.3	18.1	14.9
MTL	Millat Tractors Ltd.	904.9	1,017.0	12.4	Buy	120.4	94.7	112.1	120.00	95.00	110.00	9.6	8.1	10.5	12.2	7.1	7.0	74.3	87.3
Power Generation & Distribution																			
HUBC	Hub Power Company***	90.2	115.5	35.8	Buy	9.6	12.8	18.0	7.40	6.00	6.75	7.0	5.0	6.7	7.5	2.1	1.6	33.0	35.6
NCPL	Nishat Chu. Power Ltd.***	24.5	27.8	23.6	Buy	9.3	12.7	11.0	1.50	2.50	2.50	1.9	2.2	10.2	10.2	0.6	0.5	33.1	23.0
NPL	Nishat Power Limited***	26.8	32.5	30.6	Buy	9.1	9.9	11.8	1.50	2.25	3.00	2.7	2.3	8.4	11.2	0.5	0.4	19.7	20.2
KAPCO	Kot Addu Power Co. ***	50.8	64.0	44.6	Buy	12.1	11.6	18.3	9.15	9.50	9.75	4.4	2.8	18.7	19.2	1.2	1.0	28.4	39.6
Textile Composite																			
NML	Nishat Mills Ltd.	136.5	166.0	21.6	Buy	11.7	17.0	20.6	4.75	7.00	8.50	8.0	6.6	5.1	6.2	0.6	0.6	7.8	9.1
NCL	Nishat (Chunian) Ltd.	51.9	67.7	30.4	Buy	9.8	11.4	9.3	4.00	3.00	3.50	4.6	5.6	5.8	6.7	0.8	0.7	18.7	13.8
FML	Feroze1888 Mills Ltd.	86.5	90.9	5.1	Hold	7.3	10.0	10.07	3.65	5.00	5.00	8.6	8.6	5.8	5.8	1.8	1.6	22.1	19.9
Chemicals																			
LOTCHEM	Lotte Chemical Pak Ltd.	18.4	25.3	37.6	Buy	3.2	2.1	3.22	1.50	1.00	1.50	8.6	5.7	5.4	8.1	1.9	1.6	22.9	30.3
EPCL	Engro Polymer & Chem.	36.8								Coverage Restricted									
Engineering																			
ASTL	Amreli Steels Ltd.	52.0	68.8	32.3	Buy	5.34	6.03	6.71	2.20	4.00	4.50	8.6	7.7	7.7	8.7	1.1	1.0	13.3	13.8

Source: Bloomberg, AHL Research, * Group Company: No estimates are given, **Earning Consolidated Basis, *** Upside is Total Return

ARIF HABIB LIMITED

List of Abbreviation

1H	First Half	FIPI	Foreign Investor Portfolio Investment	NIM	Net Interest Margins
1Q	First Quarter	FM	Frontier Markets	NIR	Net International Reserve
9M	9 months	FMCGs	Fast Moving Consumer Goods	NPL	Non Performaning Loans
ADB	Asian Development Bank	FO	Furnace Oil	NYSDFS	New York State Department of Financial Services
ADIP	Auto Industry Development Policy	FTSE	Financial Times Stock Exchange	O&M	Operations & Maintance
ADR	Advances Deposit Ratio	FX	Foreign Exchange Reserves	OMCs	Oil Marketing Companies
AHL	Arif Habib Limited	FYTD	Fiscal year to date	OMO	Open Market Operation
APCMA	All Pakistan Cement Manufacturers Association	FY	Fiscal Year	OPEC	Oil Producing and Exporting Countries
bn	Billion	GBP	Great Britain Pound	p.a.	Per annum
bbl	Barrel	GDPg	GDP growth	PAT	Profit After Tax
BEER	Bond Equity Equivalent Ratio	GDP	Gross Domestic Product	PBS	Pakistan Bureau of Statistic
BoE	Barrels of Oil Equivalent	GENCOs	Power Generation Companies	PBV	Price to Book Value
bpd	barrels per day	GIDC	Gas Infrastructure Development Cess	PE	Price Earning
BOP	Balance of Payment	Gov't	Government	PER	Price Earning Ratio
CAGR	Compounded Annual Growth Rate	GoP	Government of Pakistan	PIB	Pakistan Investment Bonds
CAR	Capital Adequacy Ratio	GSP	Generalised Scheme of Preferences	PKR	Pakistan Rupee
CASA	Current Account Saving Account	GST	General Sales Tax	PMLN	Pakistan Muslim League Nawaz
CAD	Current Account Deficit	HSD	High Speed Diesel	PMLQ	Pakistan Muslim League Quaid-e-Azam
CKD	Complete Knock Down	ICH	International Clearing House	POL	Petroleum Products Prices
CNG	Compressed Natural Gas	ICT	Information & Communications Technology	PP	Petroleum Policy
CNY	Chinese Yuan	IDR	Investment Deposit Ratio	PPP	Pakistan Peoples Party
COD	Commercial Operations Date	IFC	International Finance Corporation	PPA	Power Purchase Agreement
CPEC	China Pakistan Economic Corridor	IMF	International Monetary Fund	PR	Policy Rate
CPI	Consumer Price Index	IPPs	Independent Power Producers	PSDP	Public Sector Development Program
CSF	Coalition Support Fund	JPY	Japanese Yen	PSX	Pakistan Stock Exchange
CYTD	Calendar year to date	KSE	Karachi Stock Exchange	PTI	Pakistan Tahreek-e-Insaf
CY	Calendar Year	LHS	Left hand side	RDs	Regulatory Duties
DAP	Di-ammonium Phosphate	LNG	Liquified Natural Gas	REER	Real Effective Exchange Rate
DCF	Discounted Cash Flow	LPS	Loss Per Share	RGDP	Real Gross Domestic Product
DPS	Dividend Per Share	LSM	Large Scale Manufacturing	RHS	Right hand side
DR	Discount rate	LTFF	Long Term Financing Facility	RLNG	Re-gassified Liquified Natural Gas
DY	Dividend Yield	mn	Million	ROA	Return on Assets
E&P	Exploration & Production	mb/d	Million barrels per day	ROE	Return on Equity
EBITDA	Earning Before Interest, Taxes & Amortization	ME	March End	SBP	State Bank of Pakistan
ECC	Economic Coordination Committee	mmbtu	Metric Million British Thermal Unit	SECMC	Sindh Engro Coal Mining Company
EFF	Extended Fund Facility	mmcfd	Million Cubic Feet Per Day	SME	Small Medium Enterprises
EGrow	Earning Growth	MPC	Monetary Policy Committee	SoTP	Sum of the parts
EM	Emerging Markets	MQM	Mutahida Quomi Movement	SPLY	Same period last year
EPS	Earrings Per Share	MS	Motor Spirit	TD	To Date
EU	European Union	MSCI	Morgan Stanley Composite Index	T&D	Transmission & Distribution
EV	Enterprise Value	MW	Mega Watts	TPA	Tonnes Per Annum
Ex	Excluding	NCCPL	National Clearing Company of Pakistan Limited	USD	US Dollar
FATF	Financial Action Task Force	NEPRA	National Electric Power Regulatory Authority	WAPDA	Water & Power Development Authority
FDI	Foreign Direct Investment	NII	Net Interest Income	YTD	Year-to-date

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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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- Market risk
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