Pakistan Strategy | 2015

Perfectly poised to surge ahead; KSE100 Target 40,481pts!

Content

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Abstract

KSE Investment Thesis

- With KSE going through the roof while punching in another solid return in 2014 (PKR 27%, USD 33%, cumulative 183%, 142% in USD since Jan'12), Pakistan equities look all set for yet another exciting bull run in 2015, as country's macros are expected to turn healthier given weaker oil/commodity prices followed by multi-year low inflation, improved system liquidity and stable currency outlook with overall policy reforms being in full swing along the way. The overall progress so far already caught Moody's attention as the rating agency upgraded country's outlook from 'Negative' to 'Stable', while there has been a rapid decline in corruption levels (currently at the lowest levels in the last 20 years) as per TI.
- With the formation of the All Parties Conference for a unanimous anti-terrorism policy, all political parties are in consensus now, paving the way for smooth progress. Similarly, after many years, the government and the military establishment have come on the same page, which again indicates that the political framework is gaining maturity. With operation against the militants in full-flow, the outlook on elimination of terrorism seems very bright, as the government is enacting new steps to wipe out the scourge of terrorism from the country.
- **KSE's Investment Thesis is based on:**
  - High long-term sustainable growth prospects with strong and improved macro story
  - Stable and consensus-driven political environment with improving security situation
  - Privatization, foreign inflows, fiscal consolidation as well as improved governance
  - Rising market liquidity with increased foreign investor's participation
  - Margin accretion to corporate amid efficiency gains due to lower overall input costs
  - Decent earnings growth of 8.6% while a stellar ex-E&P growth of 16.3% in 2015
  - Attractive valuations, alluring dividend yield with deep relative peer discounts
- KSE100 is targeted at 40,481 levels in 2015, offering a potential upside of 26%!
- Cement, Fertilizer, IPPs, Banks, and a select of Autos, Transport, Petrochemical, Consumer and Pharmaceuticals should outperform overall average returns in 2015.

Exhibit: KSE vs. Key World Equity Indices

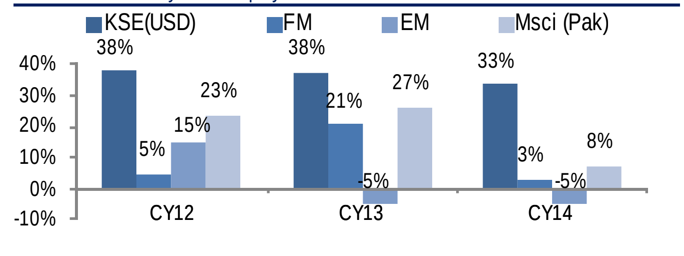


Exhibit: KSE100 Index Target Estimates 2015

Valuation Basis	Target	Weight	Breakup
Earnings Growth	33,881	20%	6,776
Target Price Based	39,424	20%	7,885
Justified PBV	61,266	5%	3,063
Justified PE	38,458	10%	3,846
Regional Ev/EBITDA	40,946	10%	4,095
Regional PE	43,725	10%	4,373
Regional DY	51,226	10%	5,123
Current PE Basis	31,948	5%	1,597
Regional PBV	37,238	10%	3,724
Average	42,012	100%	
Weighted Target 2015			**40,481**
Index Closing Dec'14			32,131
Expected Total Return 2015			**26.0%**

AHL Universe Valuation Snapshot

	2010	2011	2012	2013	2014	5-Y Average	2015F
Earning Growth (%)	18.1	26.5	14.8	23.4	10.4	18.7	8.6
EGrow Ex-E&Ps (%)	28.7	23.3	14.8	32.3	12.9	22.4	16.3
Price to Earning (x)	7.4	6.9	6.2	8.6	9.2	7.7	8.5
Price to Book (x)	1.4	1.5	1.3	1.8	1.9	1.6	1.7
Dividend Yield (%)	6.9	6.7	8.1	5.5	5.4	6.5	6.2
Earning Yield (%)	13.5	14.5	16.0	11.6	10.8	13.3	11.8
Return on Equity (%)	22.3	22.8	22.1	22.7	21.5	22.3	20.6
Payout Ratio (%)	50.9	46.2	50.7	47.1	50.0	49.0	52.4

Pakistan at a glance

Economy		Equities	
Population (mn)	188.0	Major Stock Exchange	Karachi Stock Exchange
Middle Class (of population)	35%	Benchmark Index	KSE-100
GDP/Capita (USD, FY14)	1,326	Total Market Cap (USD bn, Dec'14)	72.7 (KSE-100: 62.6)
GDP Size (USD bn, FY14)	254.0	Free Float Market Cap (USD bn, Dec'14)	18.8 (KSE-100: 16.8)
GDP Growth (1QFY15)	4.10%	Market Cap as %age of GDP	27.42%
Sovereign Rating	S&P: B-, Moody's: Caa1	Avg. Daily Traded Value (USD mn, CY14)	114.73
FX Reserves (USD bn, Dec'14)	15.2	Avg. Daily Volume (mn Shares, CY 14)	218.86
Current Account Deficit (5MFY15, of GDP)	1.10%	MSCI Category	Frontier Markets
Fiscal Deficit (5MFY15, of GDP)	1.20%	Number of Stocks in MSCI FM	15
CPI Inflation (Jul-Dec'14)	6.10%	Largest Sector	Oil & Gas
Policy Rate	9.50%	Largest Stock	OGDC
Total Debt and Liabilities (Sep'14, of GDP)	63.8%	Net Foreign Flows (USD mn, 2014)	382.54
Total Public Debt (Sep'14, of GDP)	57.0%	Foreign Holds (of FF Mkt. Cap, ex. strategic)	33.00%

Pakistan Politics | 2015

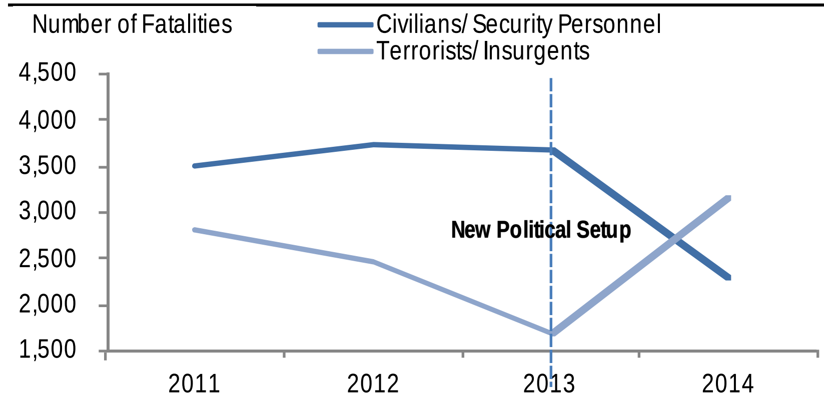
Reaching political unison

2015: Heading towards Political Harmony

Pakistan – Reaching political unison

- After a successful democratic transition, the incumbent government has been making efforts to put a number of political and economic reforms in place, from constitutional amendments for speedy prosecution to power sector restructuring, fiscal austerity and tax reforms, while recent implementation of the economic agenda i.e. progressing privatization program alongside 3G auction, Eurobond and Sukuk issues, should all augur well for the country.
- Healthy opposition in form of protests from the Pakistan Tehreek-e-Insaf and Pakistan Awami Tehreek has put the government on toes and led to the overall governance improvement and economic performance. Through successful government efforts and amid certain law & order related incidents, not only the protests were called off allowing for resumption of the government agenda of progress, but this also brought all the political rivals on one page to unite and find solution to chronic problems facing the country.
- With the formation of the All Parties Conference for a unanimous anti-terrorism policy, all political parties are in consensus, paving the way for smooth progress. Similarly, after many years, the government and the military establishment have come on the same page, which again indicates that the political framework is gaining maturity. With operation Zarb-e-Azb in full-flow following the recent terrorism incidents, the outlook on elimination of terrorism seems very bright, as the government is enacting new steps to wipe out the scourge of terrorism from the country.
- In this regard, the constitutional amendment ratifying military courts for terrorism-related cases should ensure speedy prosecution and timely justice.

Exhibit: Declining Casualties and Improving Law & Order Situation



Source: South Asian Terrorism Portal

Exhibit: Over Two Third Majority of NA voting in Favor of 21st Amendment in the Constitution

Political Party	In Favor	Against	Abstained
PML (N)	✓		
PPPP	✓		
PTI			✓
MQM	✓		
PML (F)	✓		
PML (Q)	✓		
JUI-F			✓
JI			✓
ANP	✓		
BNP	✓		
Others	✓		

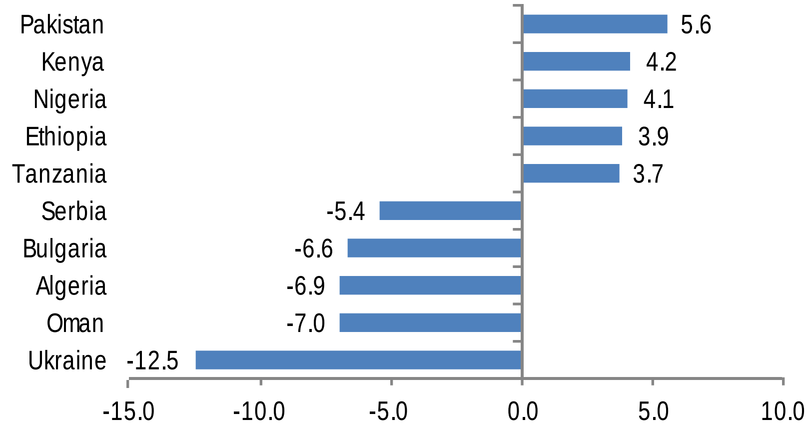
Source: National Assembly of Pakistan

2015: Agenda implementation on the go!

Recognitions despite challenges

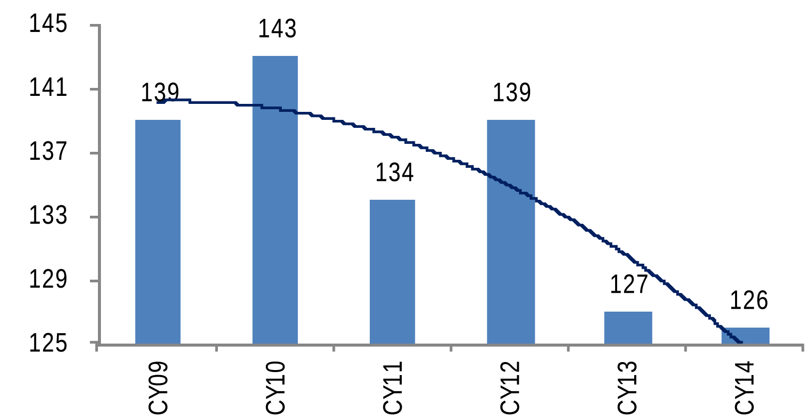
- Despite common perception about the negative aspects, the resilience of the country is evident through positive developments as evident in the recent Frontier Market's Sentiment Index, with Pakistan gaining the highest points across FMs. The government's privatization efforts have been lauded by the international community, as it won two prestigious awards in 2014: IFR Asia's "Issuer of the Year" award and the "Best Deal of the Year" award by The Asset Magazine. Policy reforms also caught Moody's attention as the rating agency upgraded country's outlook from 'Negative', since 2012, to 'Stable'.
- The government is actively pursuing energy sector reforms, aided by USD 40bn investment commitment from China alongside USD 1.7bn with Russia for LNG, which should help eliminate capacity bottlenecks and have a substantial impact on overall productivity. China's interest to provide a transit route for its western region via Pakistan's borders will be a growth stimulus.
- Relations with Afghanistan have also improved considerably since the change in their leadership, with a higher receptiveness shown by the new Afghan president to counter across-the-border terrorism and enhance trade and commerce with Pakistan.
- There is also an optimism regarding relations with India as Pakistan continues to combat the remaining terrorist elements within the country. Political relations should improve in the future, allowing trade and commerce with cheaper imports from India as well as access to a market of over 1.0bn.
- To cap off everything, there has been a rapid decline in corruption levels, currently at the lowest levels in the last 20 years as reported by the TI.

Exhibit: FM Sentiment Index: Gainers & Losers



Source: Wall Street Journal

Exhibit: Pakistan's Lowest Ranking in Corruption in Last 20 years!



Source: Transparency International, AHL Research

Pakistan Economics | 2015

Recipe for better growth mix

Pakistan Economics

Recipe for better growth mix

1 Lower Inflation Risks

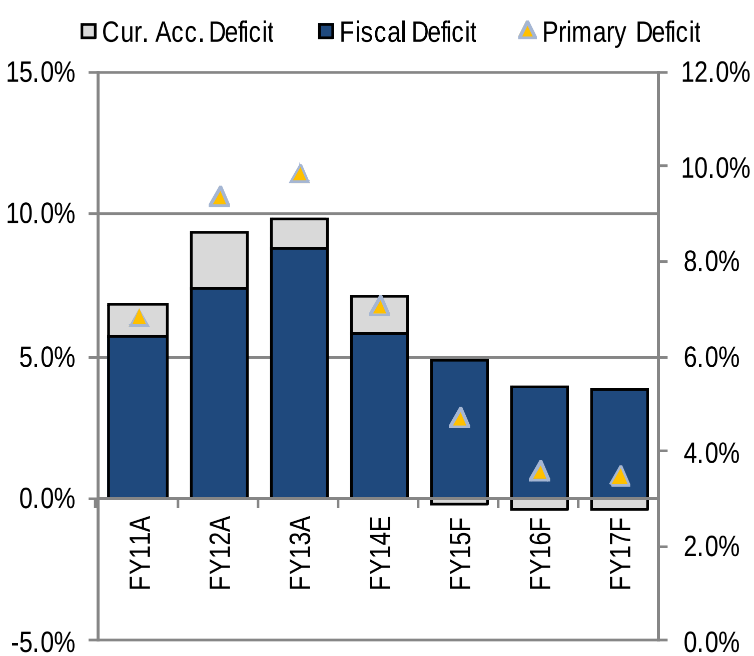
2 Stable External Account

3 Liquidity Influx

Outlook 2015:

- Pakistan equities market continued to exhibit a stellar performance during CY14. Subsiding Macro risks, falling oil prices and improving domestic liquidity have all been factors.
- **Liquidity further improving:** Ascribed to inward foreign flows and low inflation, government borrowing requirement will decline with improving liquidity position in 2015.
- **Lower central government fiscal borrowing:** Our initial take on sources of liquidity in 2015 stems from lowering fiscal borrowing requirement from domestic sources.
- **Private Sector Crowd-in:** Subsequently, we see reduction in government bond issuance, which should trigger private sector crowding in.
- **Comfort on external account:** Further, as foreign inflows flock in (portfolio, planned/unplanned) build-up in country's FX reserve along with lower oil import burden should extend some comfort on the overall external account.
- **Monetary easing:** Comfort on external account combined with lower inflation outlook and declining borrowing requirement in 2015, should allow SBP to adopt a loose monetary stance (with minimal inflationary impacts), meaning liquidity should remain plentiful in 2015.
- **Excess liquidity to fulfill supply-side bottlenecks:** Excess liquidity will fall upon managing a supply-side imbalance in particular pertaining to power/energy. This should enhance aggregate productivity, adding further impetus to the economy which, in itself, is growth front-loaded, encouraging conducive business environment.

Exhibit: Sources of Liquidity , Lowered Fiscal and External Deficit

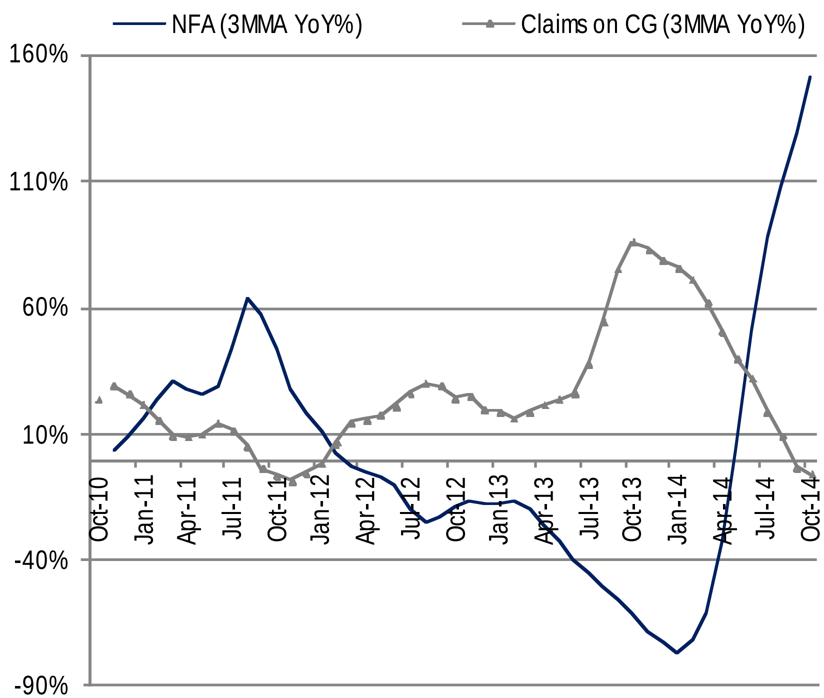


Source: SBP, PBS, AHL Research

Pakistan Economics

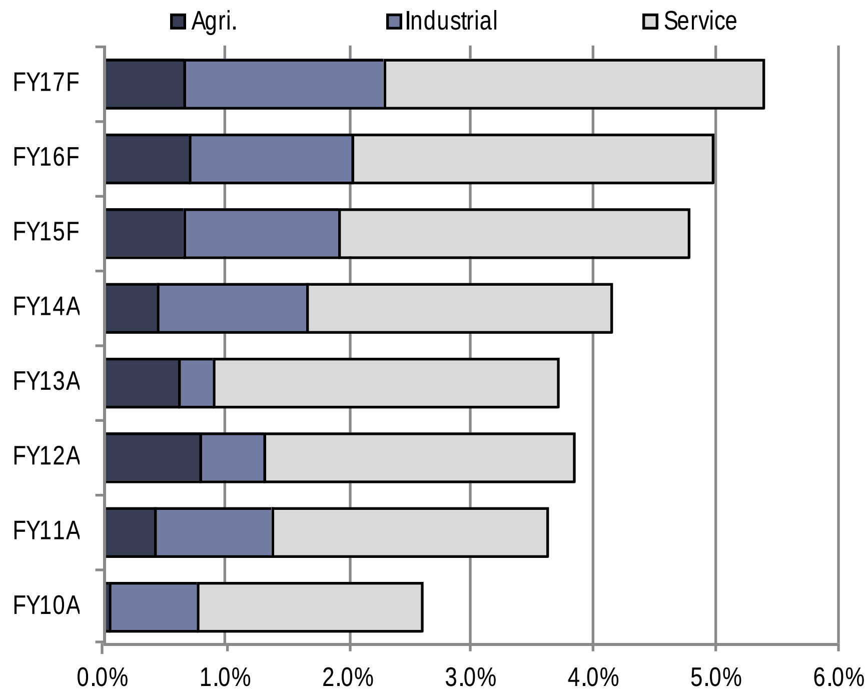
#1. Lowering inflation risks

Exhibit: Claims on Central Government Decline Sharply as Foreign Liquidity Paved in



Source: SBP,PBS, AHL Research

Exhibit: GDP Projected to Touch +6.0% Growth in FY17 Onwards



Source: SBP,PBS, AHL Research

Pakistan Economics

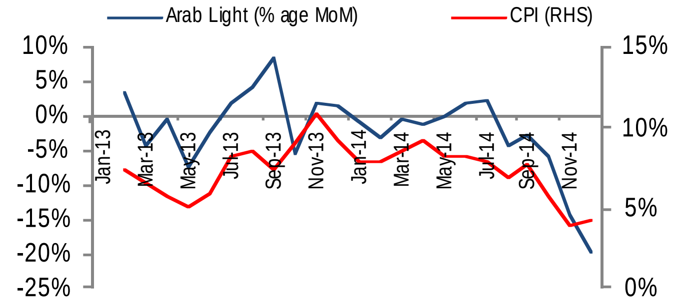
#1. Lowering inflation risks, cont'd...

Verdict: Headline inflation, as measured by CPI, will remain low averaging +6.8% in FY15, we estimate, compared to +8.6% and +7.4% in FY14 and FY13, respectively. Headline inflation came under +6.1% in 6MFY15 (versus +8.9% corresponding period last year) due to: i) moderate food price growth (Food Prices: +5.1% in 6MFY15 versus +9.9% 6MFY14), and ii) drop in oil prices (Non-Food Prices: +6.8% in 6MFY15 versus +8.2% 6MFY14).

What are we factoring in?

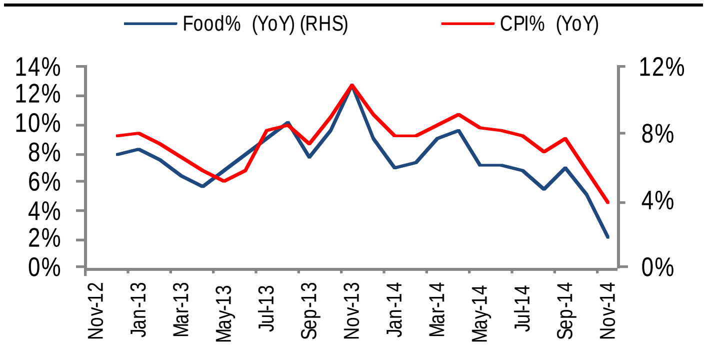
- Looking ahead, we see two important factors: Food inflation (~34% of CPI basket) and lower oil prices (~12.7% of CPI basket including petroleum products, gas, electricity and transport) will keep inflation rather muted. We estimate for FY15 inflation to average +6.8% compared to +8.6% and +7.4% in FY14 and FY13, respectively.
- **POL tax hike to counter subsidy burden:** Subsequent to fall in international oil prices, the government has duly cut down notified electricity price tariff by PKR 2.9/kWh (which could have a subsidy savings of PKR 47bn). Instead, the government has raised tax on POL by 5% to 22% which would generate about PKR ~40bn, meaning net annualised increase in fiscal expenditure would be around PKR 5-7bn. While expected increase in gas prices in 3QFY15, should allow further deduction in energy-related subsidies, meaning fiscal management would remain rather intact, we view.
- **How much of food impact?** Things are looking better; perishable food items (~22% of food basket) showed a declining trend despite Jul-14 floods, while prices of grains and dairy (~44% of food basket) also saw a stable price trend. Rabi Season (Nov-Mar) is going to ease up supply-side issues, keeping prices of grains and dairy steadier, while international prices bottoming out (in particularly edible oil), there are reasons to believe overall food inflation to remain rather stable in FY15.

Exhibit: CPI vs Oil



Source: SBP,PBS, AHL Research

Exhibit: CPI vs Food inflation



Source: SBP,PBS, AHL Research

Pakistan Economics

#2. Stable externals

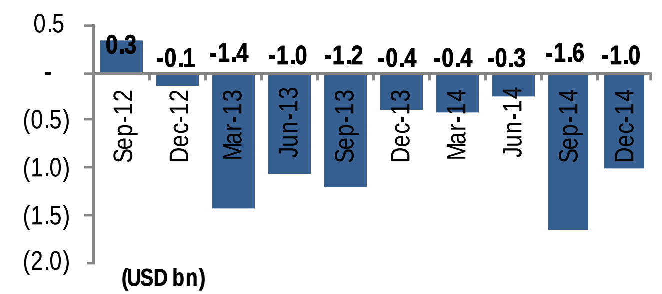
Verdict: Looking ahead in FY15, we estimate C/A surplus at 0.2% of GDP, compared to 1.3% of GDP in FY14, primarily due to a) bearish Oil prices outlook, b) pick-up in exports and c) robust remittances outlook. In addition to this Planned/Un-planned disbursements, IMF financing should all cater well for FX reserves, which would provide crucial buffer to shield-off any pressure on PKR.

- The 5MFY15 current account deficit stands at USD 2.35bn, (0.82% of the GDP) versus USD 2.15bn (0.87% of the GDP) in 5MFY14.

- **How much of oil decline impact?** For the country being a net oil importer, (FY14; 14.8bn) drop in oil prices will create a considerable saving space for government fiscals. We estimate oil based savings at USD 55/bbl amounting to roughly USD 2.8bn in 2HFY15 and USD 5.2bn in FY16, which approximately accounts for ~1.8% of the GDP savings. That said, in FY15, total current account deficit as projected(SBP) to range within 1.0-1.2% of the GDP. Incorporating oil savings along with soft commodity prices strengthens our call on surplus situation in FY15F and FY16F.

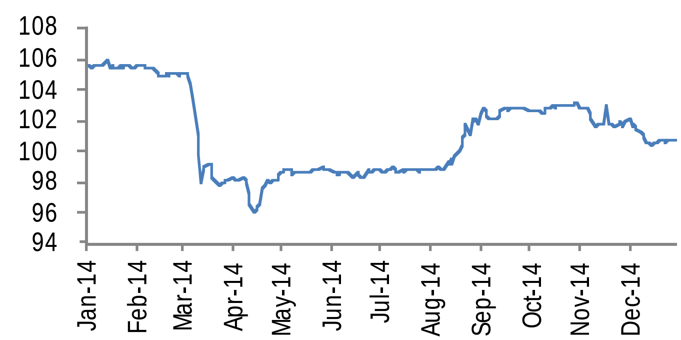
- **Inflows / Outflows...:** For FY15, reduction in debt repayments (including IMF's) alongside foreign inflows will keep financial inflows rather upbeat. As per the IMF, the country will be adding a net cumulative USD 6.0bn by Sep-15, in the form of funding from bi/multilateral disbursements and CSF. This is inclusive of a USD 1.1bn estimated to come under the EFF program would certainly jack up FX reserve position, providing a the much needed stability to PKR against the greenback.

Exhibit: Current Account Balance



Source: SBP, AHL Research

Exhibit PKR



Source: Bloomberg, AHL Research

Pakistan Economics

#3. Liquidity influx

Verdict: Liquidity constraints improved considerably in CY14, following successful issuance of Eurobond / Sukuk, Privatisation proceeds and other planned and unplanned disbursements. 2015 will most likely be a follow-up year of CY14, with an even better liquidity condition, we view.

Sources of liquidity

- Net Domestic Assets (NDA):
  - Privatisation Proceeds
  - Power/Infrastructure Public Spending ,
  - Lower external debt servicing
- Net Foreign Assets (NFA):
  - Coalition Support Funds,
  - Planned Unilateral And Multilateral Disbursements,
  - Current Account,
  - Portfolio Inflows

Implications

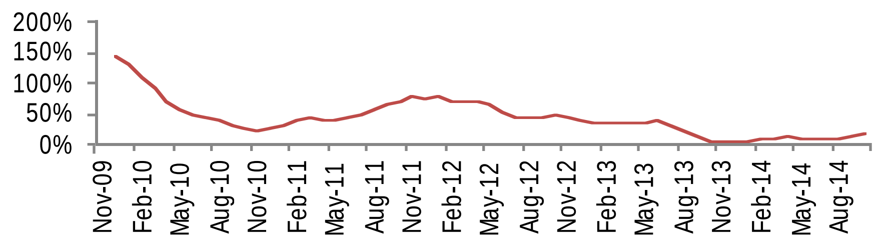
- Slowdown In Government Domestic Borrowing Requirement
- Private Sector Crowding In
- FX Build-up
- External Account Stability
- Stable Exchange Rate

Exhibit: Projected Disbursements (USDmn)

	Dec-14	Mar-15	Jun-15	Sep-15
Multilateral and bilateral disbursement	1,358	1,984	1,361	1,232
International debt issuance	1,500	-	500	-
Coalition support fund	240	240	240	240
Other	20	20	1,000	1,300
Gross Inflows	**3,118**	**2,244**	**3,101**	**2,772**
Debt Service	963	1,274	1,511	1,368
Net Disbursements	2,155	970	1,590	1,404
Privatizations	20	20	1,000	1,000
IMF Financing	417	1,330	1,827	1,594
Grants	153	192	43	65
Reserves with SBP	10,953	12,112	14,103	14,821

Source: IMF (4th&5th Review)

Exhibit: Scheduled Banks Credit to Government Sector (Net)



Source: SBP, AHL Research

Pakistan Economics

Policy rate: Easing mode

(Base Case) We estimate another <u>50bps cut to 9.0%</u> in upcoming Monetary Policy Statement (expected mid of Jan-15)

(Bull Case) With oil prices staying at current levels of USD ~50-55/bbl, we could see a <u>follow-up 50bps cut in policy rate to 8.5%</u>

(Bear Case) We do not expect a hike, given enough room on real rates, meaning least the SBP could keep is <u>policy rate unchanged at 9.5%</u>

- At the start of FY15, our initial stance on policy rate was it would stay neutral at 10% - incorporating a prescribed energy/power prices hike plus USD 100/bbl oil prices. However, massive fall in the international commodity prices (see our report: The Barrel Drop – Sept-14) has altered Pakistan's macro-economic outlook only recently. The SBP's latest 50bps policy rate cut (Nov-13) mooted a similar theme.

Factors for our policy rate call:

- Bearish Oil prices outlook
- Slowdown inflation
- Foreign Inflows
- Build-up in FX reserves
- Comfort on External Account

Upside risks to our call:

- Sudden upswing in oil and other key commodity Prices
- Supply side disruption may lead to higher food prices

Exhibit: SBP Policy vs Inflation

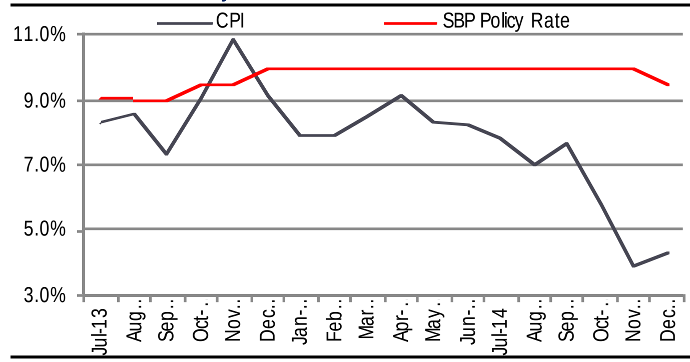
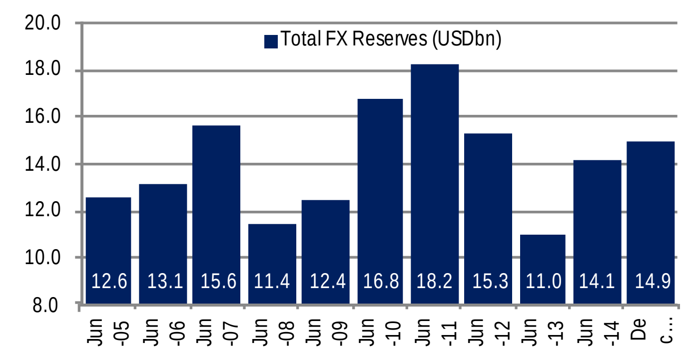


Exhibit: FX Reserves



Source: SBP,PBS, AHL Research

Pakistan Economics

Key macro indicators

Key Indicators	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F
Real								
GDP (Real Growth %)	2.6%	3.6%	3.8%	3.7%	4.1%	4.8%	5.0%	5.4%
Service Sector	3.2%	3.9%	4.4%	4.9%	4.3%	4.9%	5.1%	5.3%
Industrial Sector	3.4%	4.5%	2.5%	1.4%	5.8%	6.1%	6.3%	7.8%
Agricultural Sector	0.2%	2.0%	3.6%	2.9%	2.1%	3.2%	3.4%	3.2%
Investment to GDP	15.0%	13.5%	13.3%	12.8%	12.2%	12.0%	12.2%	13.0%
Savings to GDP	13.6%	14.2%	13.0%	13.5%	12.9%	13.1%	12.8%	12.6%
GDP (PKRbn)	14,668	18,063	20,654	22,909	25,402	28,406	31,867	36,075
Population (mn)	172	175	179	183	188	189	192	195
Per Capita Income (USD)	1,000	1,207	1,292	1,291	1,326	1,417	1,518	1,641
Prices								
CPI (%age YoY)	10.1%	13.7%	11.0%	7.4%	8.6%	6.8%	7.2%	7.8%
Policy Rate - Period end	13.9%	13.5%	12.0%	9.0%	10.0%	9.0%	9.0%	9.0%
External Sector (USD bn)								
Exports	19.7	24.8	24.7	24.8	25.1	25.5	25.8	26.2
Imports (ex-oil)	20.0	28.1	25.2	25.3	26.9	28.0	29.1	30.3
Imports (oil)	11.2	12.1	15.2	14.9	14.8	12.1	12.4	13.5
Trade Terms	(11.5)	(15.4)	(15.8)	(15.4)	(16.7)	(14.6)	(15.7)	(17.6)
Remittances	8.9	13.9	13.2	13.9	15.8	17.4	19.2	21.1
FX Reserves - Period end	16.8	18.2	15.3	11.0	14.1	14.6	15.6	16.7
Current Account Balance (%age of GDP)	-2.2%	-1.0%	-2.1%	-1.1%	-1.3%	0.2%	0.4%	0.4%
Exchange Rate (average)	85	86	89	97	103	106	109	113
Fiscal Accounts (%age of GDP)								
Total Revenue	13.7%	13.0%	12.9%	13.2%	15.1%	14.5%	14.6%	15.1%
Tax Revenue	10.2%	9.8%	10.3%	9.9%	10.6%	11.5%	12.1%	12.9%
Total Expenditure	16.8%	18.7%	20.3%	22.0%	20.9%	19.4%	18.6%	19.0%
Current Expenditure	11.6%	16.0%	16.3%	17.8%	16.2%	15.2%	14.1%	14.2%
Development Expenditure	5.2%	2.7%	3.9%	4.2%	4.7%	4.2%	4.4%	4.8%
Fiscal Balance	5.0%	5.7%	7.4%	8.8%	5.8%	4.9%	4.0%	3.9%
Public Debt	59.9%	57.2%	60.0%	63.5%	67.0%	67.8%	67.9%	67.3%

Source: SBP, PBS, MoF, AHL Research

Pakistan Capital Markets | 2015

A 'Top-down' story to continue….

Pak equities remain in top slot across world indices

2014: Yet another year of commendable performance

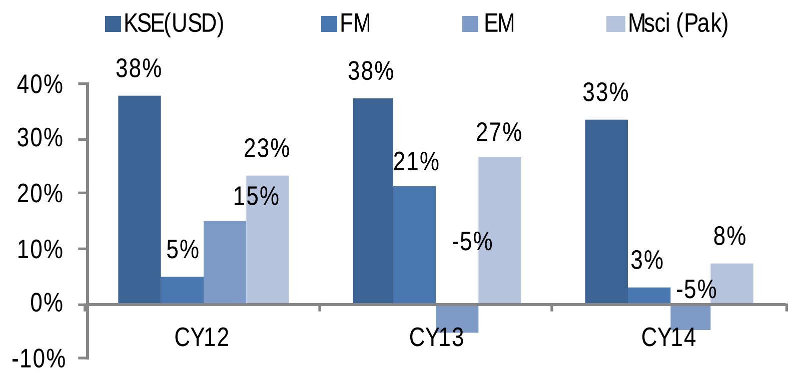
- 2014, turned out to be yet another rewarding year for KSE, returning +27% (USD based +33%) to close at 32,131 levels. This is the 3rd consecutive year of double-digit return performance by the KSE. Steady corporate earnings growth, subsiding macroeconomic risks, drop in oil prices, stable external account, foreign flows and better domestic liquidity have all been factors. Interestingly, during last 10 years, when mostly a host of negatives played in, Pak equities exhibited an astounding 20% (30% ex. 2008) return in USD.

- As returns paced up, KSE now ranks as the third (3rd) best performing world markets of 2014 after China (+48%) and Venezuela (+41%). This is a big leap considering the market ranked 18th back in 2011, 8th in 2012 and 11th in 2013. KSE not only topped key MSCI indices but it also topped Asia FMs.

- During CY14, on average volume/value traded/day significantly increased to USD 115mn compared to USD 93mn in CY13 exhibiting a 23% YoY rise. Unconventional sectors led the way such as Industrial Transportation remained the top-performing sector during the year, fetching a whopping +262% return. This was followed by Life Insurance (+202%) and Automobiles & Parts sector (+192%). Importantly, index heavy weight Oil & Gas sector (~20%) market capitalization declined by 7.3% owing to 51% YoY plunge in oil prices. Interestingly, the sector's decline could not hamper the index growth much, as evident from the handsome return recorded by the KSE100.

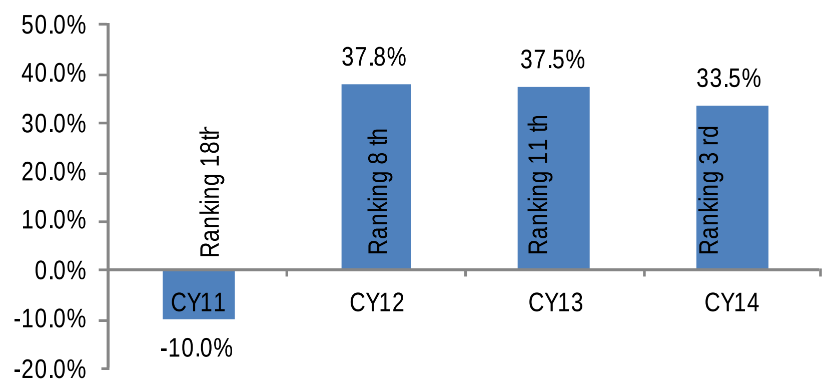
- KSE has been consistently outpacing EM and FM indices since 2010. KSE100 remained in top slot in Asia Pac in 2014. The outperformance was driven by solid profit growth (+36% YoY), handsome foreign flows and improving economic picture alongside policy rate easing.

Exhibit: Pakistan Equities vs Key World Equity Indices



Source: Bloomberg, MSCI

Exhibit: KSE Performance Ranking Trend amongst World Equity Markets



Source: Bloomberg

Sustained gains amid eco-market growth convergence

A 'Top-down' story to continue….

- Over the last five years, real earnings growth has outpaced real GDP growth. KSE returns have followed the earnings growth trend, exhibiting the bottom-up story so far. However, 2015 is estimated to be a top-down story similar to previous year and expectedly better than 2014. Contrary to previous years where economic growth remained subdued compared to impressive earnings growth, this time both earnings growth and economic growth should compliment each other.

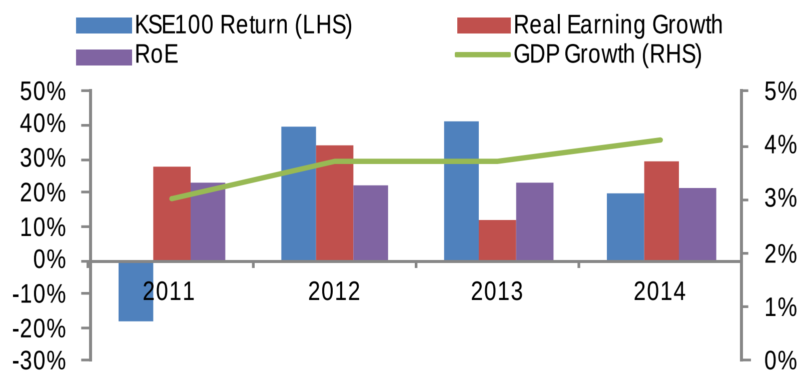
- Political consensus and economic reforms should set ground for better corporate profitability performance, mainly owing to lower commodity prices/energy input prices, lower inflation, stable external outlook and above all, monetary easing. We expect at least a 100bps cut in policy rate in 2015.

- This should largely benefit leverage sectors (Cement, Textiles and Fertilizer) and a select of others. Apart from easing, lower input/energy cost should lead to margin expansion for the aforemented sectors alongside Petrochemicals/Paints. Further, increasing fiscal space should result in higher development expenditures which bodes well for Construction & Materials.

- With fresh investment being injected into the power sector, the severe energy bottleneck is expected to be addressed, resulting in better outputs and earnings growth with higher payouts during 2015. In addition, monetary easing would be an icing on the cake for the entire energy chain (yield plays).

- Pakistan's RGDP (4.9%) is in line with regional peers, EGrow (14.4%) is better than peers while ROE is outpacing regional average, thus, Pakistan's PER (8.3x) multiple warrants a rerating, trading at a 38% discount to region!

Exhibit: Economic growth vs Corporate Fundamental Growth



Source: KSE, SBP

Exhibit: Economic Indicators vs Earnings Growth

Country	RGDP	CPI	DR	Egrow*	RoE*
S.Korea	3.2	1%	2.0	23%	11%
India	5.3	4%	8.0	20%	17%
Thailand	0.6	1%	2.0	17%	12%
Philippines	5.3	4%	4.0	16%	13%
Sri Lanka	7.7	2%	6.5	15%	12%
China	7.3	1%	5.6	15%	17%
Taiwan	3.6	1%	1.9	10%	15%
Vietnam	6.2	2%	6.5	6%	15%
Indonesia	5.0	6%	7.8	-12%	20%
Peer Average	**4.9**	**2%**	**4.9**	**12%**	**15%**
Pakistan	**4.1**	**4%**	**9.5**	**14%**	**24%**
Difference	-0.8	2%	4.6	2%	9%
Relative Value	**Parallel**	**Low**	**Sliding**	**Better**	**Best**

Source: Bloomberg, AHL Research, * 2015 Estimated

Gains to continue to sail on eco-market growth convergence

Ex-E&P Earnings growth to remain solid

- Post 2013 democratic transition, the economy has been on the road to gradual recovery, with 2015 set to be the year when equities reap the rewards for all the efforts put in by the government through policy initiatives so far.

- **Ex-E&P growth is key:** AHL Universe ex-E&P reveals double-digit profit growth (+16.3%), which is nearly doubled the profit growth of AHL Universe (+8.6%) as a whole. Ex-E&P growth is expected to be largely triggered by key sectors i.e. Cement (+17%), Fertilizer (+21%), Banks (+9.6%) and Autos (+57%). On the back of monetary easing, decline in energy prices and better liquidity, yield play IPPs (+17%) should be in focus. Earnings growth in Textiles (+26%) and Telecom (+35%) looks good primarily due to base-effect.

- Cement sector should reap benefits from soft coal prices, deleveraging and better PSDP utilization. Better asset quality, loan sheet expansion amid economic recovery all contribute to the positive outlook on Banks. Fertilizer sector earnings are expected to improve mainly on materialization of the concessionary gas to EFERT while Auto sector would remain in limelight due to depreciating JPY and lower steel prices. In addition to Autos, PKR appreciation has been a major plus for Pharmaceuticals and FMCGs. The impact of decreasing fuel cost should be a gift for Petrochemicals/Paints and Transportation due to huge fuel savings. Textiles could benefit from GSP+ Status though weak cotton prices and stable currency may dilute the impact.

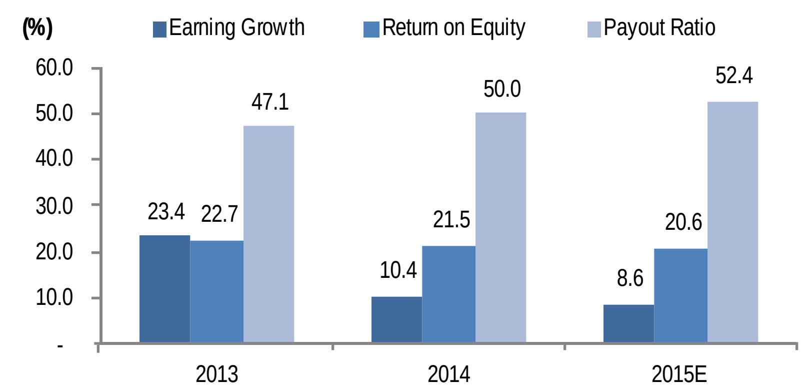
- Efforts by the incumbent government via power sector reforms along with the IMF "strings-attached" loan pointing towards alleviation of the issue of circular debt should result in higher payouts as a result of better earnings of and payouts from the IPPs and E&Ps.

Exhibit: Corporate Sector Earnings Growth (%): Trend and Forecast

Sector	CY10	CY11	CY12	CY13	CY14	5-Y Avg.	CY15F
E&Ps	7.3	30.6	14.8	13.1	7.1	14.6	(2.5)
Banks	9.9	10.3	20.8	24.6	29.8	19.1	9.6
Fertilizer	39.2	68.4	(14.8)	24.3	(6.0)	22.2	20.7
Cement	(19.5)	142.4	94.6	29.4	18.6	53.1	17.0
Oil & Marketing	250.9	1.7	(7.8)	43.7	6.3	59.0	(7.7)
Autos	23.8	23.6	17.7	13.7	42.4	24.2	56.5
Power	12.4	33.9	56.2	31.1	13.2	29.4	17.0
Textiles	93.2	3.0	17.3	16.6	(6.8)	24.7	25.8
Telecom	1.6	(19.7)	53.3	37.7	(29.4)	8.7	34.8
AHL Universe - CY Basis	**18.1**	**26.5**	**14.8**	**23.4**	**10.4**	**20.7**	**8.6**
AHL Universe – Ex-E&P	**28.7**	**23.3**	**14.8**	**32.3**	**12.9**	**24.8**	**16.3**

Source: Companies Reports, AHL Research

Exhibit: AHL Universe growth story….Ex-E&P Profit Growth



Source: Companies Reports, AHL Research

Market liquidity on the go!

Foreign participation continues to climb

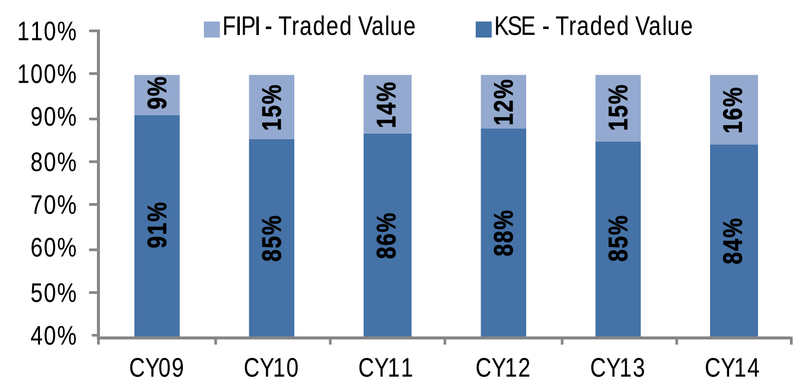
- Foreign interest has also been on the rise at KSE. This can be gauged from the fact that foreign participation contributed 16% to the total value traded – highest in 6 years (2009: 9%). This signals rising foreign interest (greater visibility via higher weight in MSCI FM Index). Foreign investors' holdings of Pak equities also stood ~USD6.2bn or 32% of free-float market cap.

- MSCI's consideration for MSCI EM status in Feb'15 or rising weight of the KSE in the MSCI Frontier Markets – from current 7.5% to above 9.6% - would increasingly make Pak equities unavoidable for foreign funds thereby increasing foreign flows to KSE. We also expect higher foreign funds diverted towards Pakistan ahead of Kuwait, Nigeria alongside other ME/oil/commodity exporting countries. Moreover, lower correlation of Pak equities with FM/EM should further excite foreign funds to enhance allocations towards KSE.

- Foreign inflows remained robust at USD383mn (USD398mn in 2013), depicting the interest from foreign clientele in this highly lucrative market despite political worries. Privatization initiatives during the year had a multifold impact in catching the eyes of overseas investors, garnering USD 340mn in CY14. Major deals during 2014 were UBL, ABL, and PPL (first ever privatization deal done at a premium, exhibiting growing investor appetite).

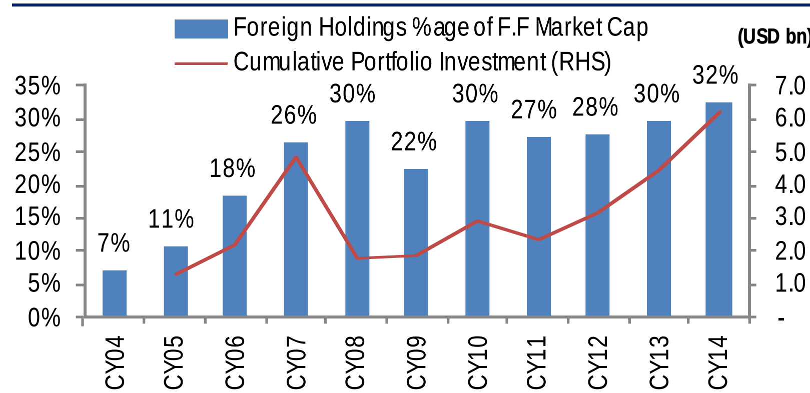
- The gov't is set to execute largest privatization deal (USD 1.2bn of HBL) in 1HFY15. We expect the gov't to raise a total of PKR 247bn in 2015 (3.6x over CY14). This is expected to not only attract more foreign flows to equities but to enhance market's free-float to 30% (current 26%). Thus, scaling liquidity, increasing breadth, alongside planned demutualization, should lead to overall better price discovery at the KSE.

Exhibit: Total Traded Value – KSE and Foreign Investors



Source: KSE, NCPL

Exhibit: Increasing Foreign Exposure in KSE…



Source: KSE, NCPL

Relative appeal through sustained deep discounts

Attractive regionally with improved risk/reward profile

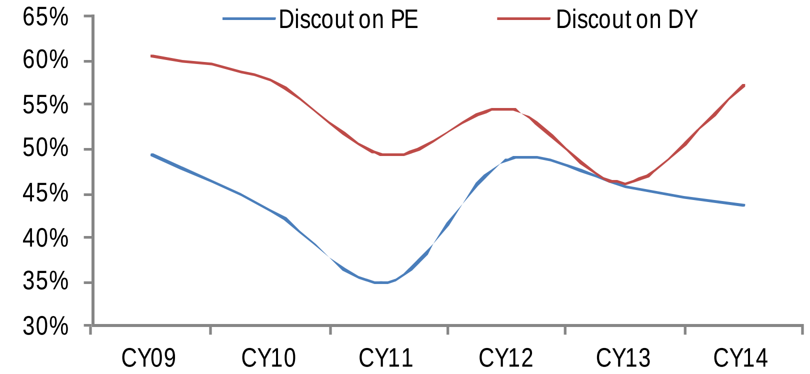
- KSE continued outperforming regional peers on multiple fronts during 2014, with more of the same to follow in 2015. In terms of P/E multiple, access to Pak equities is available at a PE(2015) of 8.3x, compared to regional multiple of 13.3x, amounting to a discount of ~38% over regional peers. PBV multiple analysis reveals KSE trading at ~17% discount to regional peers. DY comparison is even more impressive, with KSE trading at a 57% discount to peers (DY of 6.3% vs regional of 2.5%), standing at almost historic discount of 61% despite massive bull runs in the last 3 years.

- Despite FM/Asia Pac equities recording handsome gains in 2014, KSE100's deep discount to regional peers remained (37% on PE, 27% on EV/EBITDA, 52% on PEG, 17% on PBV, and an alluring 57% on DY while a sizeable 30% on RoE). Importantly, despite consistently beating MSCI FM Index, KSE100 still trades at ~10% discount to MSCI FM. We view, improving macros, subsiding political tension and stable currency with stellar earnings growth should translate into correction of the stated discounts.

- We expect KSE to provide impressive ex-E&P (AHL Universe) earnings growth of 16.3% (AHL Universe growth of 8.6%) during CY15, compared to 12.2% average earnings growth average for regional peers. This is in addition to sizeable discount available at regional valuation, as aforementioned.

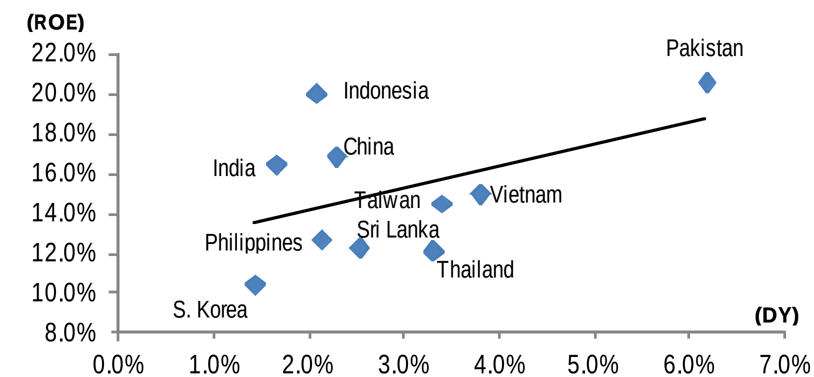
- With Moody's upgrading Pakistan's outlook from Negative to Stable, KSE offers better return package to investors with lower riskiness compared to last year. With crude oil and other commodities' prices falling globally, inflation and exchange rate risks have also reduced significantly, allowing investors to rejoice and make hay during sunny weather.

Exhibit: Historical discount on PE & DY...



Source: KSE, NCPL

Exhibit: Regional ROE vs Dividend Yield



Source: KSE, NCPL

Index Target 2015

KSE100 Index to make eyes with 40,481pts level

- In 2015, Pak equities' re-rating is expected to continue given both improving macro indicators – lower inflation, better fiscals chained with loosening monetary policy, structural reforms and foreign investment in key sectors i.e. Power/Energy – as well as their undemanding valuations. This all point towards a prolonged and sustainable bull run for the economy in general, and equity market in particular.

- Thus, unlike last year, investors need to keep a close eye on both mainstream / bluechip as well as neglect sectors, as the former are to continue sailing on macro turnaround while the later on energy/efficiency gains emerging from oil/commodity fall. While one can keep track of eco-political news during 2015, sight of compelling valuations should not be lost.

- Adjusting prevailing regional discounts to historical levels (average discount ranging 44%-54%), chained with justified PE/PBV, Earnings Growth and the Target Price models, gives a weighted average KSE-100 Index Target of 40,481pts, another jump of ~8,350pts expected by 2015-end, with a total return of a solid 26% YoY.

- Though wide swings in equities are not expected given the fact that KSE is mostly a cash market with minimal leverage financing, any delays in planned inflows, economic reforms implementation, lower than expected dip or delay in the policy rate amid renewed currency and inflation risks with other economic overhaul risks playing out more than the positives discussed, KSE100 Index may lag its underlying potential in 2015. Key upside remains rebound in oil prices, as E&P holds the largest weight in the KSE100.

Exhibit: KSE100 Index Target Estimates 2015

Valuation Basis	Target	Weight	Breakup
Earnings Growth	33,881	20%	6,776
Target Price Based	39,424	20%	7,885
Justified PBV	61,266	5%	3,063
Justified PE	38,458	10%	3,846
Regional Ev/EBITDA	40,946	10%	4,095
Regional PE	43,725	10%	4,373
Regional DY	51,226	10%	5,123
Current PE Basis	31,948	5%	1,597
Regional PBV	37,238	10%	3,724
Average	42,012	100%	
Weighted Target 2015			**40,481**
Index Closing Dec'14			32,131
Expected Total Return 2015			**26.0%**

Source: AHL Research, *On the basis of adjustments to historical discounts

Exhibit: AHL Universe Valuation Snapshot

	2010	2011	2012	2013	2014	5-Y Average	2015F
Earning Growth (%)	18.1	26.5	14.8	23.4	10.4	18.7	8.6
EGrow Ex-E&Ps (%)	28.7	23.3	14.8	32.3	12.9	22.4	16.3
Price to Earning (x)	7.4	6.9	6.2	8.6	9.2	7.7	8.5
Price to Book (x)	1.4	1.5	1.3	1.8	1.9	1.6	1.7
Dividend Yield (%)	6.9	6.7	8.1	5.5	5.4	6.5	6.2
Earning Yield (%)	13.5	14.5	16.0	11.6	10.8	13.3	11.8
Return on Equity (%)	22.3	22.8	22.1	22.7	21.5	22.3	20.6
Payout Ratio (%)	50.9	46.2	50.7	47.1	50.0	49.0	52.4

Source: Companies Reports, AHL Research

Key portfolio theme

Alpha-generating portfolio

- **KSE Investment Thesis is based on:**
  - High long-term sustainable growth prospects with strong and improved macro story next to drive equities forward
  - Stable and consensus-driven political and improving macroeconomic environment with improving security situation
  - Privatization, foreign fund inflows (as more FM funds being launched), fiscal consolidation as well as improved overall governance
  - Rising volumes / traded value and market liquidity with increased foreign investor's participation
  - Margin accretion to manufacturing corporate amid efficiency gains due to lower input costs
  - Decent earnings growth of 8.6% in 2015 onwards, while a stellar ex-E&P profit growth of 16.3% in 2015
  - Attractive valuations as well as alluring dividend yield

We have the following portfolio mix to bank 2015 equity strategy on to outperform market-wide expected average returns:

Company	Price (31-Dec-14)	Target Price (Dec'15)	Upside (%)	PE (x)	DY (%)	Company	Price (31-Dec-14)	Target Price (Dec'15)	Upside (%)	PE (x)	DY (%)
ENGRO	221.5	376.1	69.8	8.1	2.3	PNSC	160.4	203.3	26.8	9.4	1.0
PSO	357.9	510.0	42.5	6.6	4.2	BAFL	34.9	43.5	24.7	8.9	5.7
KEL	9.2	13.1	42.2	16.6	5.4	UBL	176.7	219.3	24.1	10.2	5.7
DGKC	110.5	149.4	35.2	7.1	3.6	NBP	69.5	83.7	20.5	9.0	8.6
ACPL	195.2	262.6	34.5	8.6	7.7	FFC	117.1	139.0	18.7	8.2	12.0
FFBL	45.2	60.7	34.3	7.4	11.1	KOHC	190.9	223.1	16.9	8.8	1.0
PPL	176.5	237.0	34.3	7.6	7.1	MCB	305.7	357.1	16.8	13.0	4.6
PTC	23.0	30.9	34.2	7.8	8.7	INDU	880.3	1,028.2	16.8	9.7	5.7
NML	121.0	159.3	31.7	7.7	3.3	OGDC	205.9	240.0	16.6	9.0	6.1
FABL	18.2	23.7	30.2	5.6	-	PSMC	371.1	421.7	13.6	6.2	2.7
POL	379.4	492.0	29.7	7.4	10.8	HUBC	78.4	88.7	13.3	10.5	9.3
NCL	45.4	58.3	28.4	5.5	4.4	LUCK	500.3	561.2	12.2	11.4	2.0
ABL	113.6	144.5	27.2	8.3	7.0	MEBL	47.0	52.5	11.7	10.0	5.3
EFERT	78.1	99.3	27.2	8.9	3.8	**KSE100 Index**	**32,131**	**40,481**	**26.0**	**8.5**	**6.5**
FECTC	79.3	100.7	27.0	5.4	3.8						

Source: KSE, AHL Research

Key macro-factor sensitivities

Who is more sensitive to key macros?

- Below is provided companies' earnings / valuation sensitivity with changes in interest rates and local currency (PKR) depreciation against the greenback. Please note that, around 60% of the KSE is positively correlated with currency depreciation (due to pricing / margins being in USD) while part deleveraging of the manufacturing sector (during the monetary easing) is expected to lessen monetary tightening impact on companies' bottomlines:

Exhibit: 1% PKR Depreciation impact on Earnings

Company	EPS Impact (PKR)	EPS 2015E (PKR)	Change	Company	EPS Impact (PKR)	EPS 2015E (PKR)	Change
LUCK	0.13	43.8	0.3%	LOTCHEM	0.07	1.0	6.4%
NPL	0.02	8.5	0.2%	NML	0.38	15.7	2.4%
NCPL	0.02	8.2	0.2%	EPCL	-0.05	1.9	2.4%
DGKC	-0.03	15.6	-0.2%	KAPCO	0.09	8.1	1.1%
KOHC	-0.09	21.8	-0.4%	NCL	0.08	8.2	1.0%
ACPL	-0.32	22.8	-1.4%	HUBC	0.07	7.5	0.9%
PSO	-0.75	53.8	-1.4%	PTC	0.03	2.9	0.9%
FFBL	-0.09	6.1	-1.5%	POL	0.36	51.1	0.7%
FCCL	-0.05	3.0	-1.7%	OGDC	0.14	22.9	0.6%
				APL	0.17	55.2	0.3%

Source: AHL Research

- Though not in our formal / hard coverage, there are a select of companies/stocks which we expect would remain in the limelight in CY15, for their turnaround amid better macros, gains through declining input costs, and re-rating of their investment portfolios. These include small-cap IPPs (LPL, PKGP), Banks (HMB, BAHL, JSBL) and Cements (MLCF), while amongst individual ones are IGIIL, PAEL, PKGS, DAWH. MLCF, FEROZ, SEARLE and IBLHL. Detailed list at the end of the report.

Exhibit: 100bps decrease in Policy Rate and impact on Valuations

Company	Change	Company	Change
FFC	4.0%	ACPL	3.8%
FFBL	4.2%	LUCK	4.2%
ENGRO	6.5%	KOHC	4.1%
EFERT	8.9%	FCCL	5.7%
HUBC	4.0%	DGKC	2.9%
KAPCO	2.8%	PSO	7.1%
NPL	2.3%	APL	3.6%
NCPL	2.5%	PPL	1.5%
LOTCHEM	3.9%	ODGC	2.0%
EPCL	8.9%	POL	2.1%
INDU	3.7%	MCB	3.6%
PSMC	3.9%	BAFL	-9.9%
PTC	3.6%	UBL	-3.7%
NML	1.3%	NBP	-3.1%
NCL	3.7%		

Source: AHL Research

Pakistan Sectoral Strategies | 2015

Potential outperforming sectors

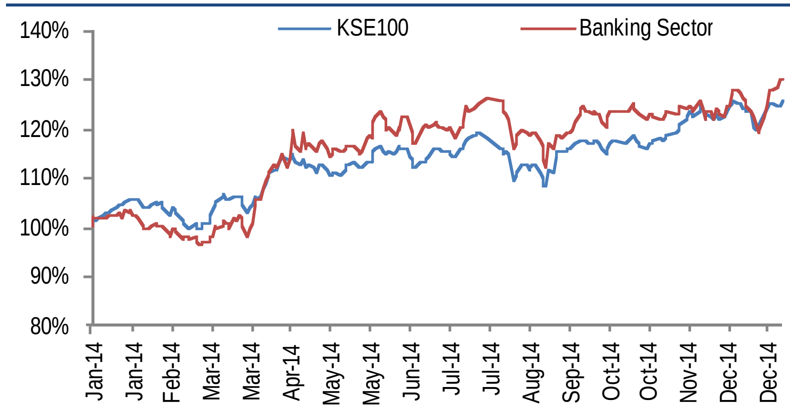
Banks

Sector Performance

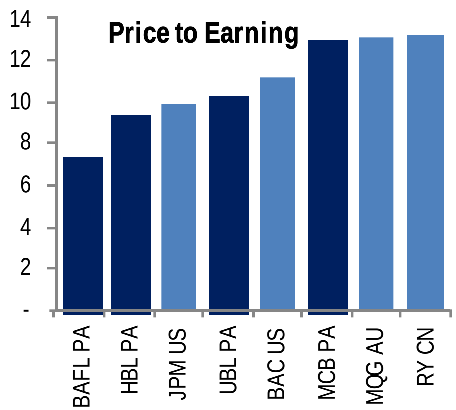
Exhibit: Sector's Key Statistics	CY14
No of Listed Companies	25
Average Daily Turnover (mn Shares)	1.09
Market Cap. (PKR mn)	1,588,275
Market Cap. (USD mn)	15,883
Return (%)	35.6%
PE (x)	12.2
PB (x)	1.9
ROE (%)	15.4%
ROA (%)	1.6%
Dividend Yield (%)	4.6%

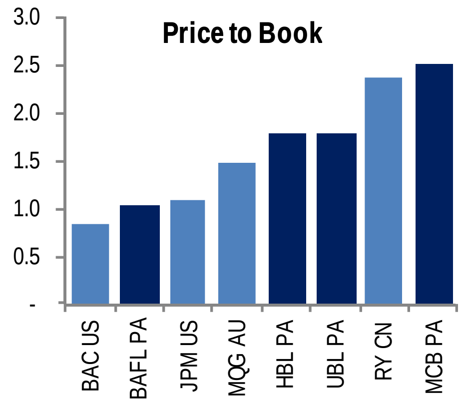
Source: Bloomberg, AHL Research

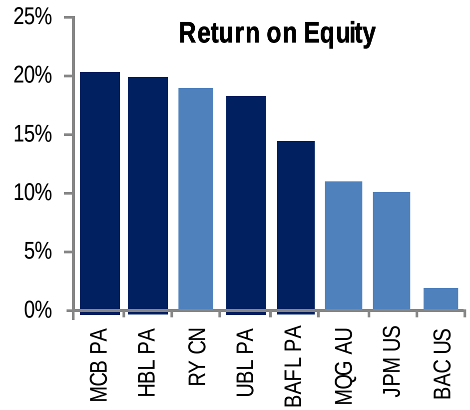
Exhibit: Banking Sector Performance Relative to KSE100

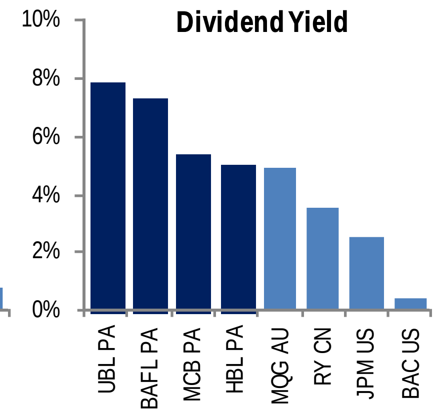


Source: KSE, AHL Research









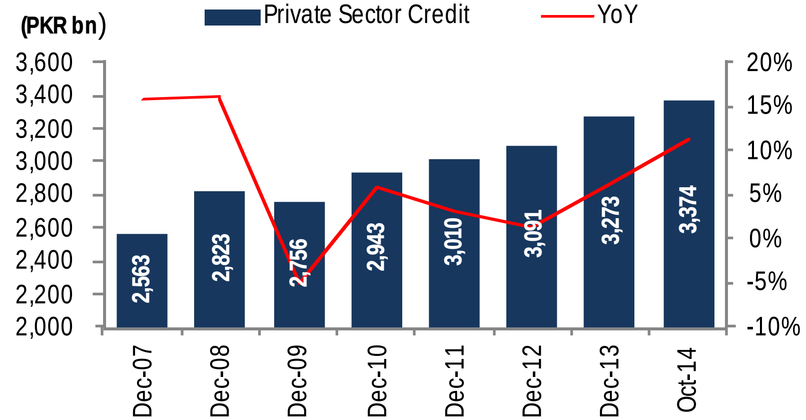
Banks

Banking on macro-recovery

Key drivers

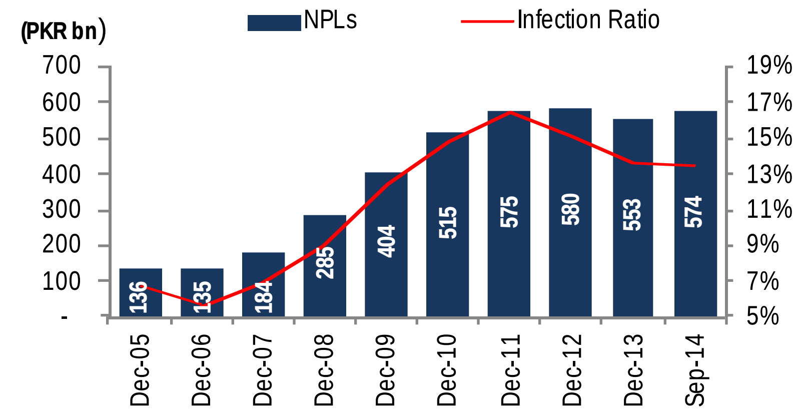
- **Credit cycle rebound:** Improving macros have pushed up private sector credit growth to almost a 5-year high at +12% YoY, which should help boost earnings yields. We expect sector advances to show on average +11% CAGR during CY15-18F.
- **NPL accretion to remain minimal:** Infection ratio came down considerably to 14.1% in Sep-14, from a high of 18.4% back in Sep-11. Rebounding economy and lower interest rate environment should keep NPL accretion to minimal. In addition, exposure to power/infrastructure projects along with technical advancement in risk management should protect any surprises in the infection ratio.
- **Hefty savings of PIBs:** Although, we do not see much attraction coming in PIB investments from banks (PKR 2.5trn Nov-14 versus PKR 0.7trn in Dec-13), which supported earning yields in CY13. However, expected policy rate cuts (100bps cumulative), should help bank book in revaluation gains expanding book values and capital gains.
- **NIMs to remain neutral despite Policy easing in CY15:** Earning yields are estimated to remain neutral amid newer asset mix – having a larger portion of advances and then investment in government securities. In addition, restructured deposit should ward-off SBP's much stricter Minimum Deposit Rate (MDR) regulation. This should push NIMs by an estimated 15-25bps in CY15F.

Exhibit: Credit to Private Sector Growth at 5-Year High



Source: SBP, AHL Research

Exhibit: Banking Sector Infection Ratio Down to 14.1% by Sep'14



Source: SBP, AHL Research

Banks

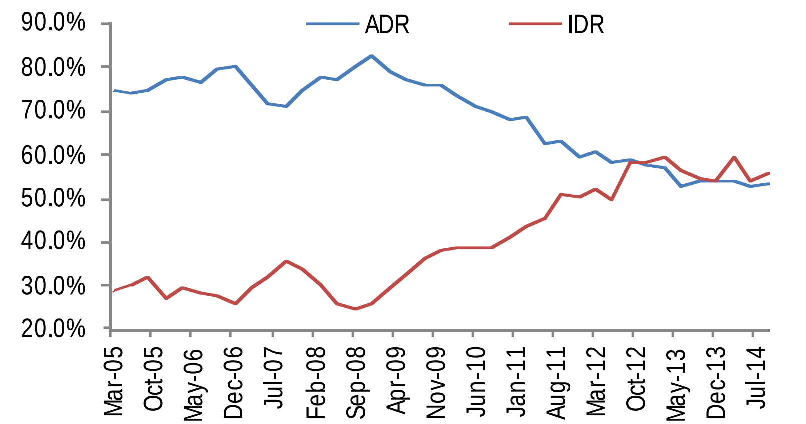
Banking on macro-recovery

- **Focus on non-fund based income finally bearing fruits:** Robust equity market should allow in for better capital and divided income, which will add to already healthy FX gains booked by banks. In addition, growth in advances should compliment fee income.
- **De-risking of balance sheet:** Improving macros, stable NIMs and cleaner asset sheets should all compliment a better sector rating. Currently, the sector is trading at a P/B of 1.9x and a P/E of 12.2x, with average dividend yields of 5.4%.
- **Top picks:** We have a liking for UBL, MCB, HBL and BAFL. Primarily due to their strong capital bases. Hence, if anything the banking sector is banking on we think these banks are suitably placed to leverage their balance sheet.
- **Other notable picks:** Apart from the aforementioned, we also like FABL, HMB, BAHL, MEBL and ABL for their superior return offerings.

Risks

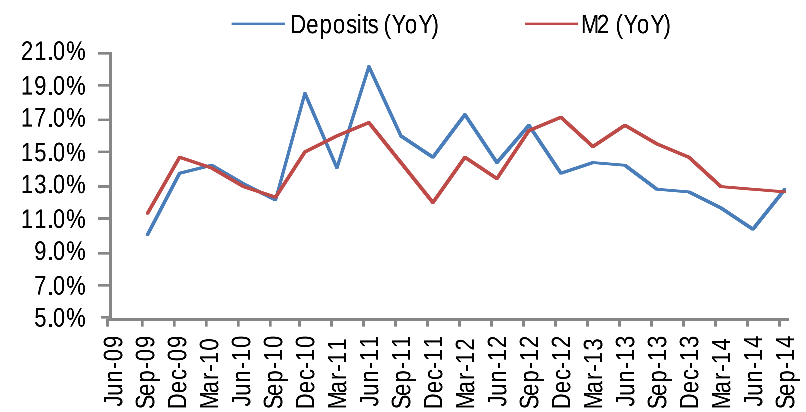
- Slower than expected growth in advances.
- Re-emergence of the Non Performing Loans amid any deterioration in macros and unfavorable changes in the interest rate environment.
- Any increase in the minimum deposit rates.

Exhibit: Advances-Deposit vs Investment-Deposit Ratio Trend



Source: SBP, AHL Research

Exhibit: Banking Sector Deposits and M2 Growth Trend



Source: SBP, AHL Research

Banks

Habib Bank Limited*

Recommendation	NC
Target Price	Coverage Restricted
Current Price	216.3
Upside	n.a
Bloomberg Code	HBL PA
Free float	10%
Major Shareholders – Agha Khan Foundation & Government of Pakistan	

Key Investment Theme

- **Growth Opportunity:** HBL is one of our top picks within banking sector due to: a) strong earnings growth, b) capital strength and balance sheet quality, c) being well-placed to benefit from an economic recovery, given its fortress like book size and d) higher and sustainable ROE.
- **Strong capital base, the bank could easily leverage its book:** HBL is well placed to expand its interest earning assets. Bank's CAR stands at ~17%, which helps in capitalizing on improving macros.
- **Loan sheet positioned to improve NIM:** Bank's loan sheet is positioned to help recover NIM ahead from current 4.2%, while heavy investment in high-yielding PIBs should compliment growth in interest income without jeopardizing key risk metrics.
- **Diversified non-interest income streams hold strong growth prospects:** Currently, HBL is the largest local recipient of remittances. Moreover, HBL's branchless transaction and retail banking product, 'HBL Express' is catching up fast. Financial advisory is another key area where the bank is well positioned against peers.
- **ROE on a road to recovery, domestic and international business:** International business ROA also normalized although headwinds persist particularly in EU business (~7% of total asset size). Recovery in domestic business and stability in international business should cater well for ROE to recover from current 17% in CY13.

Risks

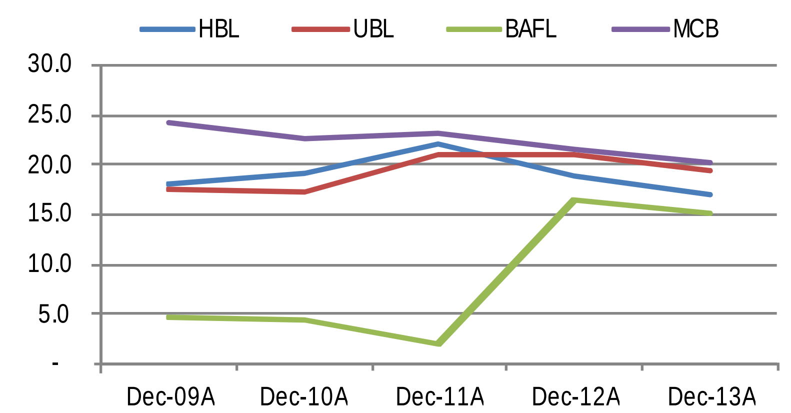
- Faster accretion in NPLs, increase in MDR, slow growth in advances.

Exhibit: Valuation Parameters

	Dec-12A	Dec-13A	9MCY14
Earning per Share - PKR	15.5	15.7	14.9
Dividend per Share - PKR	7.5	8.0	6.5
Price to Earning (x) - Annualized	13.9	13.8	10.9
Price to Book (x)	2.4	2.2	2.1
Dividend Yield (%)	3.5	3.7	3.0
Return on Assets (%)	1.4	1.4	1.3
Return on Equity (%)	17.2	16.7	19.7
Mkt Cap. / PPOP (x)	7.5	8.5	9.2
Net Interest Margins (%)	5.1	4.0	5.5

Source: Company Financials, AHL Research

Exhibit: ROE Comparison



Source: Company Financials, AHL Research

* Arif Habib Limited is an advisor in the privatization transaction of HBL.

Banks

Habib Bank Limited*

Target Price			Coverage Restricted
Current Price			216.3
Upside			n.a
Market Capitalization (PKR mn)			317,222
Market Capitalization (USD mn)			3,172
PKR mn	**Dec-12A**	**Dec-13A**	**9MCY14**
Income Statement			
Mark-up Income	57,760	55,016	49,488
Non Mark-up Income	15,960	19,323	16,697
Total Income	73,720	74,339	66,185
Operating Expense	31,392	36,806	31,873
Pre-Provisioning Operating Profits	42,329	37,533	34,311
Provisions	6,774	1,400	1,050
Pre-tax Profits	35,555	36,133	33,261
Taxation	12,770	13,106	11,366
Post-tax Profits	22,785	23,027	21,896
Balance Sheet			
Interest Earning Assets	1,369,721	1,482,376	1,491,488
Other Assets	240,754	232,895	214,073
Total Assets	1,610,474	1,715,271	1,705,561
Deposits	1,214,964	1,401,230	1,419,155
Other Liabilities	262,781	171,607	133,061
Total Liabilities	1,477,745	1,572,837	1,552,216
Share Capital	12,123	13,335	14,669
Tier-I Equity	118,717	130,634	142,386
Toal Equity	132,730	142,434	153,345

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	3.4	11.6	42.8
Average Volume (mn Shares)	0.3	0.3	0.3
High Price - PKR	224.8	224.8	224.8
Low Price - PKR	198.8	180.3	136.3
	Dec-12A	**Dec-13A**	**9MCY14**
Shareholder Ratios			
Earning per Share -PKR	15.5	15.7	14.9
Dividend per Share -PKR	7.5	8.0	6.5
Book Value per Share- PKR	90.5	97.1	104.5
Dividend Payout Ratio (%)	39.9	46.3	43.5
Price Ratios			
Price to Earning (x) - Annualized	13.9	13.8	10.9
Price to Book (x)	2.4	2.2	2.1
Dividend Yield (%)	3.5	3.7	3.0
Capital Strength			
Risk Weighted Assets -PKR mn	771,005	846,088	na
Total Eligible Capital -PKR mn	118,003	130,253	na
CAR (%)	15.31	15.4	na
Margins (%) - Annualized			
Yield on IEA	10.0	8.4	9.1
Yield on IBL	4.9	4.4	3.6
NIM	5.1	4.0	5.5
CASA	66.2	72.4	75.8
Return on Assets	1.4	1.4	1.3
Return on Equity	17.2	16.7	19.7

*** Arif Habib Limited is an advisor in privatization transaction of HBL.**

Banks

Bank Alfalah Limited

Recommendation	BUY
Target Price	43.5
Current Price	34.9
Upside	24.7%
Bloomberg Code	BAFL PA
Free float	50%
Major Shareholders - Individuals & Directors	

Key Investment Theme

- **Earnings to expand post capital injection by a CAGR +18%YoY in CY15-18F:** Earlier in Dec-14, capital injection of PKR 6.7bn (+15% of share capital) by the IFC will dilute earnings, and ROE will average +18%, we estimate. Firstly, this additional Capital would help raise BAFL's CAR to 15.8% and 14.9% in CY14, CY15 respectively we view and will accrete earnings.
- **Changing asset mix and restructured deposits:** BAFL interest income is estimated to show a +17% YoY CAGR during CY15-CY18F, led by: a) growth in advances, b) investments in PIBs, and c) low growth in cost of deposit given +70% CASA ratio (cost of deposit ~4.8% in CY15-18F).
- **This should help recover NIMs reaching 4.5% by CY18F from 4.0%:** Islamic banking division of BAFL is likely to remain under pressure, lacking liquidity. However, recently introduced Islamic product (Bai-mujjal – average yield equivalent to T-bill) and expected Ijarah Sukuk issuance in CY15 should provide a much needed cushion.
- **Steady growth in non-funded income to strengthen profitability:** In collaboration with IFC, SME lending should gain some momentum, complementing growth in bank's fee income. While capital gains and better treasury income should help in displaying robust non-funded growth in CY15 and beyond.
- **Lower provisioning charge to support bottomline:** Bank's infection ratio in CY14E stood at a decent +~6%, with coverage ratio almost 73% provisioning risks stands minimal.

Risks

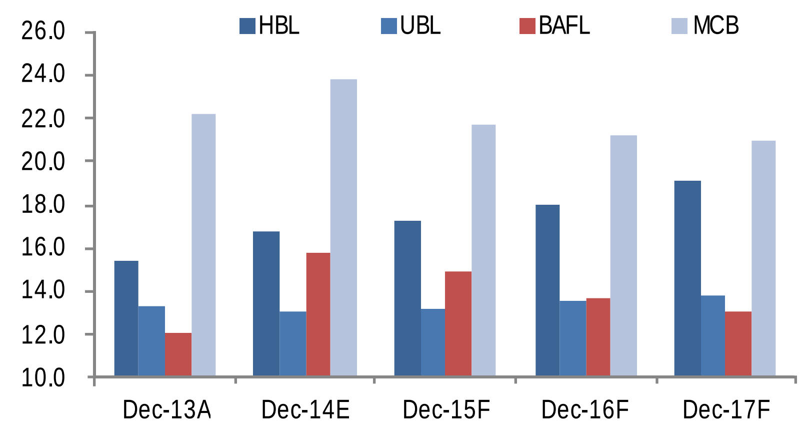
- Faster accretion in NPLs, increase in MDR, slow growth in advances.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	2.9	3.5	4.0
Dividend per Share - PKR	2.0	2.0	2.0
Price to Earning (x)	11.8	10.1	8.8
Price to Book (x)	1.7	1.3	1.2
Dividend Yield (%)	5.7	5.7	5.7
Return on Assets (%)	0.8	0.9	0.9
Return on Equity (%)	15.1	15.1	14.7
EBITDA Margins (%)	7.0	5.8	4.9
Net Margins (%)	3.3	4.0	4.2

Source: Company Financials, AHL Research

Exhibit: CAR Recovery Strongest in BAFL



Source: Company Financials, AHL Research

Banks

Bank Alfalah Limited

Target Price	43.5
Current Price	34.9
Upside	24.7%
Market Capitalization (PKR mn)	55,363
Market Capitalization (USD mn)	547

Relative Performance	3M	6M	12M
Total Return (%)	22.9	26.8	28.9
Average Volume (mn Shares)	3.9	3.3	3.5
High Price - PKR	34.9	34.9	34.9
Low Price - PKR	28.4	26.1	25.0

PKR mn	Dec-13A	Dec-14E	Dec-15F
Income Statement			
Mark-up Income	16,895	22,558	26,840
Non Mark-up Income	8,279	7,941	8,441
Total Income	25,173	30,499	35,281
Operating Expense	17,313	20,989	24,083
Pre-Provisioning Operating Profits	7,861	9,510	11,198
Provisions	1,054	1,577	1,681
Pre-tax Profits	6,807	7,932	9,518
Taxation	2,131	2,431	3,234
Post-tax Profits	4,676	5,501	6,283
Balance Sheet			
Interest Earning Assets	328,155	341,944	375,982
Other Assets	282,459	335,801	391,713
Total Assets	610,614	677,745	767,696
Deposits	525,526	581,870	657,513
Other Liabilities	53,187	54,689	65,771
Total Liabilities	578,713	636,559	723,283
Share Capital	13,492	15,872	15,872
Tier-I Equity	28,266	37,259	40,367
Toal Equity	31,902	41,186	44,412

	Dec-13A	Dec-14E	Dec-15F
Shareholder Ratios			
Earning per Share -PKR	2.9	3.5	4.0
Dividend per Share -PKR	2.0	2.0	2.0
Book Value per Share- PKR	20.1	25.9	28.0
Dividend Payout Ratio (%)	57.7	57.7	50.5
Price Ratios			
Price to Earning (x)	11.8	10.1	8.8
Price to Book (x)	1.7	1.3	1.2
Dividend Yield (%)	5.7	5.7	5.7
Capital Strength			
Risk Weighted Assets -PKR mn	299,297	315,302	356,092
Total Eligible Capital -PKR mn	36,085	49,801	53,183
CAR (%)	12.1	15.8	14.9
Margins (%)			
Yield on IEA	8.5	9.4	9.0
Yield on IBL	5.2	5.4	4.8
NIM	3.3	4.0	4.2
CASA	74.7	74.0	72.7
Return on Assets	0.8	0.9	0.9
Return on Equity	15.1	15.1	14.7

Banks

United Bank Limited

Recommendation	BUY
Target Price	219.3
Current Price	176.7
Upside	24.1%
Bloomberg Code	UBL PA
Free float	25%
Major Shareholders - State Bank of Pakistan & Bestway Group	

Key Investment Theme

- **ROE to average +20% in CY15-18F:** We estimate bank's ROE to average +20.3% in CY15-18F, from +19.1% in CY11-14E. We base our earnings projection on account of: a) bank's improved asset quality which should keep provisioning charge rather minimal, b) growth in bank's advances given high level of CAR (+13%+) and, c) changing domestic deposit structure along with international book (25% of deposit) which diverges from the SBP regulations.
- **Superior asset mix to keep NIMs intact:** Bank's interest income is estimated to show an +17% CAGR over CY15-18F, led by +10% average growth in advances pushing up NIMs to 4.9% in CY18F from current 4.3%, we estimate.
- **Restructuring domestic deposits with +25% int'l deposit size:** Cost of deposit would be rather subdued at 3.9% by CY18F from 3.7% in CY13, aiding well to NIMs expansion.
- **Steady growth in non-funded income to strengthen bank's profitability:** UBL's active pursuance into branchless banking, increasing international footprint and trade activities have helped the bank's non-funded income (excluding capital gains and dividend income) to increase by +22% YoY to PKR 12.2bn in CY13.
- **Lower provisioning charge to fortify earning growth:** Stringent lending policy and its ability to manage credit risk prudently, has resulted in an 8% YoY decline in NPLs. With coverage as high as 84%, provisioning charge will remain minimal.

Risks

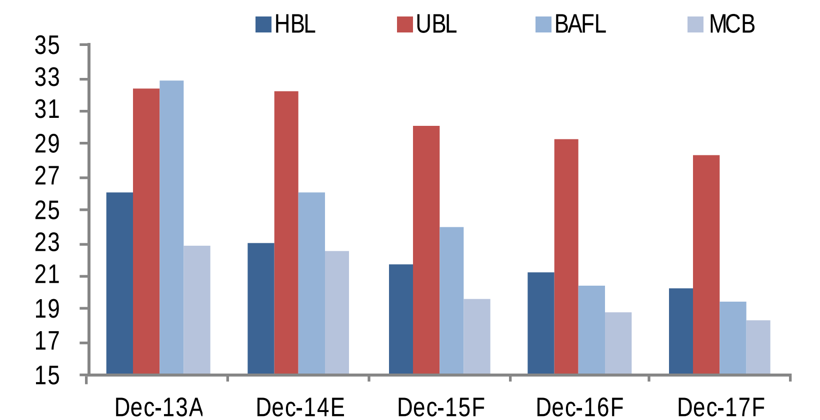
- Faster accretion in NPLs, increase in MDR, slow growth in advances.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	15.2	17.4	19.7
Dividend per Share - PKR	10.0	11.0	12.0
Price to Earning (x)	11.6	10.2	9.0
Price to Book (x)	2.1	2.0	1.8
Dividend Yield (%)	5.7	6.2	6.8
Return on Assets (%)	2.0	2.0	2.1
Return on Equity (%)	19.3	20.1	20.7
EBITDA Margins (%)	7.4	6.7	5.6
Net Margins (%)	4.3	4.3	4.7

Source: Company Financials, AHL Research

Exhibit: Non-Funded Income %age of Total income Highest in UBL



Source: Company Financials, AHL Research

Banks

United Bank Limited

Target Price			219.3
Current Price			176.7
Upside			24.1%
Market Capitalization (PKR mn)			216,325
Market Capitalization (USD mn)			2,138

Relative Performance	3M	6M	12M
Total Return (%)	-6.2	4.8	33.3
Average Volume (mn Shares)	1.3	1.5	1.3
High Price - PKR	193.9	193.9	193.9
Low Price - PKR	161.9	161.9	121.4

PKR mn	Dec-13A	Dec-14E	Dec-15F
Income Statement			
Mark-up Income	37,936	41,622	49,980
Non Mark-up Income	18,114	19,783	21,571
Total Income	56,050	61,406	71,551
Operating Expense	26,940	29,103	32,602
Pre-Provisioning Operating Profits	29,110	32,303	38,950
Provisions	1,303	581	2,704
Pre-tax Profits	27,807	31,722	36,246
Taxation	9,193	10,478	12,158
Post-tax Profits	18,614	21,244	24,087
Balance Sheet			
Interest Earning Assets	492,054	519,801	585,147
Other Assets	517,685	572,005	644,316
Total Assets	1,009,739	1,091,806	1,229,463
Deposits	827,848	910,795	1,029,198
Other Liabilities	80,977	70,465	78,191
Total Liabilities	908,825	981,260	1,107,389
Share Capital	12,242	12,242	12,242
Tier-I Equity	88,558	96,336	105,733
Toal Equity	100,914	110,546	122,074

	Dec-13A	Dec-14E	Dec-15F
Shareholder Ratios			
Earning per Share -PKR	15.2	17.4	19.7
Dividend per Share -PKR	10.0	11.0	12.0
Book Value per Share- PKR	82.4	90.3	99.7
Dividend Payout Ratio (%)	65.8	63.4	61.0
Price Ratios			
Price to Earning (x)	11.6	10.2	9.0
Price to Book (x)	2.1	2.0	1.8
Dividend Yield (%)	5.7	6.2	6.8
Capital Strength			
Risk Weighted Assets -PKR mn	668,611	652,751	724,716
Total Eligible Capital -PKR mn	88,727	86,841	97,371
CAR (%)	13.3	13.3	13.4
Margins (%)			
Yield on IEA	8.5	8.7	8.5
Yield on IBL	4.2	4.4	3.8
NIM	4.3	4.3	4.7
CASA	-	-	-
Return on Assets	2.0	2.0	2.1
Return on Equity	19.3	20.1	20.7

Banks

MCB Bank Limited

Recommendation	BUY
Target Price	357.1
Current Price	305.7
Upside	16.8%
Bloomberg Code	MCB PA
Free float	40%
Major Shareholders – Maybank Int'l & D.G. Khan Cement	

Key Investment Theme

- **NIM Attraction still presents strong liking:** We still hold a strong a liking for MCB, based on its superior NIM offering to its peers (5.3% in CY13). Much of this core profit superiority lies in attracting cheap deposits (CASA 90%). Although a certain resentment regarding NIM contraction floated considering the bank holds almost +55% in saving accounts – which is subjected to SBP regulation of minimum deposit rate – we view that bank's ability to alter its deposit portfolio is the most agile. Bank in the last 3 years has managed to decrease its fixed deposit growth by almost ~10%, compared to a 18% growth in CASA same period. And, expectedly, eyeing a policy rate would certainly reduce its cost of deposits.
- **Advances to pace-up given a huge capital base cushion:** Further under the current macro-recovery the bank hold one of the highest CAR (+24% CY14E) and the best asset quality (infection ratio +6.6% CY14E), which gives it plenty of room to expand its earning yields, meaning earning yields would pace up.
- **Earnings to show 16% CAGR over CY15-18F:** We estimate bank's earnings to top PKR 37.7/share in CY18F from PKR 22.4/share in CY14E. This should help protect bank's ROE >22% (one of the highest in industry).

Risks

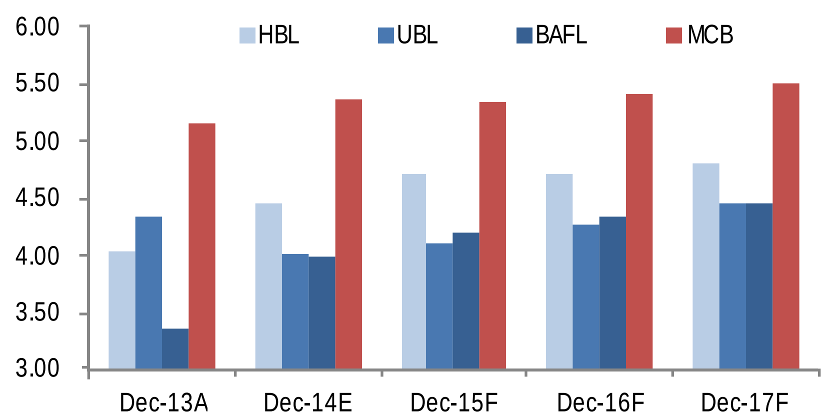
- Faster accretion in NPLs, increase in MDR, slow growth in advances.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	19.3	22.4	23.9
Dividend per Share - PKR	14.0	15.0	14.0
Price to Earning (x)	15.8	13.6	12.8
Price to Book (x)	3.1	2.8	2.5
Dividend Yield (%)	4.6	4.9	4.6
Return on Assets (%)	2.7	2.9	2.7
Return on Equity (%)	20.2	21.6	20.8
EBITDA Margins (%)	11.6	9.6	8.7
Net Margins (%)	5.2	5.4	5.3

Source: Company Financials, AHL Research

Exhibit: MCB Highest NIMs Warrants Premium Valuation



Source: Company Financials, AHL Research

Banks

MCB Bank Limited

Target Price	357.1
Current Price	305.7
Upside	16.8%
Market Capitalization (PKR mn)	340,198
Market Capitalization (USD mn)	3,362

Relative Performance	3M	6M	12M
Total Return (%)	8.2	1.4	19.6
Average Volume (mn Shares)	0.3	0.3	0.5
High Price - PKR	305.7	305.7	305.7
Low Price - PKR	274.7	261.4	227.4

PKR mn	Dec-13A	Dec-14E	Dec-15F
Income Statement			
Mark-up Income	37,868	43,934	49,944
Non Mark-up Income	11,171	12,758	12,197
Total Income	49,039	56,692	62,141
Operating Expense	19,586	21,124	22,966
Pre-Provisioning Operating Profits	29,453	35,568	39,175
Provisions	(2,836)	(1,590)	(130)
Pre-tax Profits	32,288	37,158	39,305
Taxation	10,793	12,191	12,754
Post-tax Profits	21,495	24,967	26,551
Balance Sheet			
Interest Earning Assets	704,763	819,607	923,606
Other Assets	110,746	100,060	134,863
Total Assets	815,508	919,667	1,058,469
Deposits	632,330	705,547	797,269
Other Liabilities	72,947	93,025	126,805
Total Liabilities	705,277	798,573	924,074
Share Capital	10,118	11,130	11,130
Tier-I Equity	97,272	105,543	116,511
Toal Equity	110,231	121,094	134,395

	Dec-13A	Dec-14E	Dec-15F
Shareholder Ratios			
Earning per Share -PKR	19.3	22.4	23.9
Dividend per Share -PKR	14.0	15.0	14.0
Book Value per Share- PKR	99.0	108.8	120.7
Dividend Payout Ratio (%)	65.9	66.9	58.7
Price Ratios			
Price to Earning (x)	15.8	13.6	12.8
Price to Book (x)	3.1	2.8	2.5
Dividend Yield (%)	4.6	4.9	4.6
Capital Strength			
Risk Weighted Assets -PKR mn	456,837	513,561	620,823
Total Eligible Capital -PKR mn	101,214	122,124	135,024
CAR (%)	22.2	23.8	21.7
Margins (%)			
Yield on IEA	9.4	10.2	9.6
Yield on IBL	4.2	4.9	4.3
NIM	5.2	5.4	5.3
CASA	89.8	90.0	90.0
Return on Assets	2.7	2.9	2.7
Return on Equity	20.2	21.6	20.8

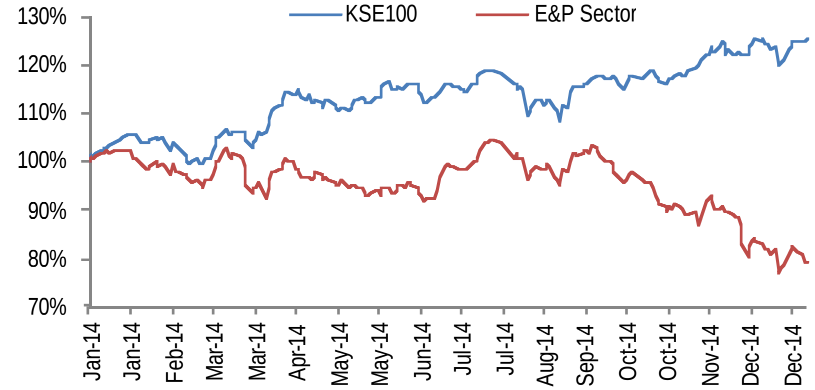
Exploration & Production

Sector Performance

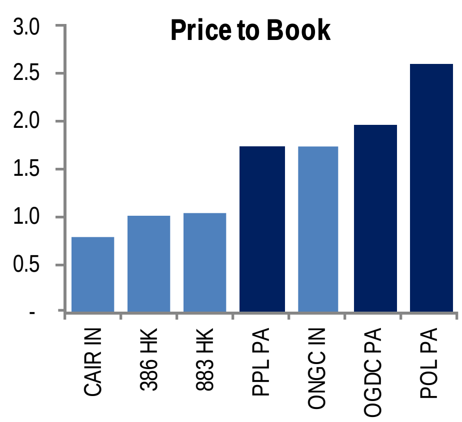
Exhibit: Sector's Key Statistics	**CY14**
No of Listed Companies	3
Average Daily Turnover (mn Shares)	2.7
Market Cap. (PKR mn)	1,323,215
Market Cap. (USD mn)	13,232
Return (%)	(19.7)
PE (x)	9.2
PB (x)	2.6
ROE (%)	28.3
ROA (%)	12.3
Dividend Yield (%)	5.1

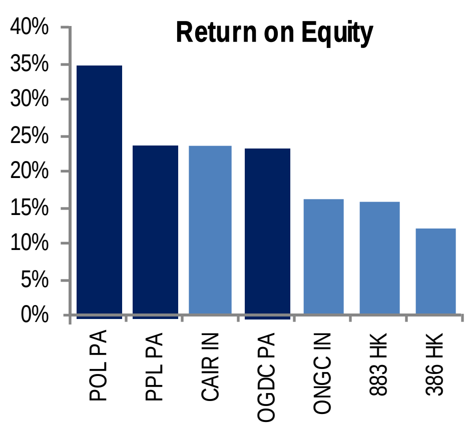
Source: Bloomberg, AHL Research

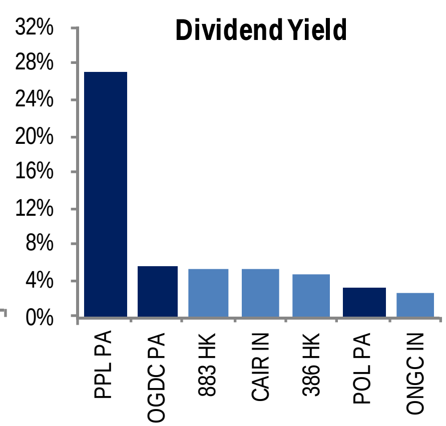
Exhibit: E&PSector Performance Relative to KSE100



Source: KSE, AHL Research







Exploration & Production

Oil Production to lead the way!

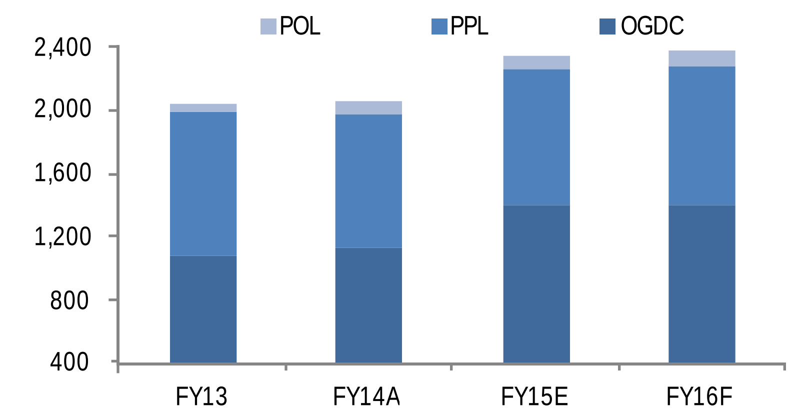
Key drivers

- **Production additions to shape up the growth story:** AHL E&P recorded an impressive oil production growth of 10.3%, whereas gas production remained flat at 2,052mmcfd of gas in FY14. Similarly in FY15, we believe the E&P companies are poised to record oil production growth of 8.3%, whereas gas volumes to remain flat. POL leads the pack with 22% growth in oil while OGDC dominates the gas production with at 18%.
- **Regulatory framework encouraging aggressive exploration:** To encourage the exploration activities, the government in its Petroleum Policy 2012, has increased gas pricing by 36% to USD 6/mmbtu. In addition, government is giving 40% higher price for tight gas, while a policy for shale gas pricing is also under consideration.
- **Hedge against currency volatility:** E&P companies provide shield against currency appreciation. For every 1% appreciation in USD dollar against currency PKR the earnings of PPL, POL and OGDC are sensitive by 0.50% and 0.7% and 0.6%, respectively.
- **Unlever balance sheet and strong cash flow generation:** Despite mounting circular debt, the cash flow generation of E&P companies remained strong, maintaining their previous year payout ratio, where POL lead the race by distributing 110% of what is earned, offering the best yield in the E&P sector. Going forward, the cash flow generation of AHL E&P universe would remain strong and unleveraged balance sheet of these companies further re-iterates our conviction for the sector

Risks

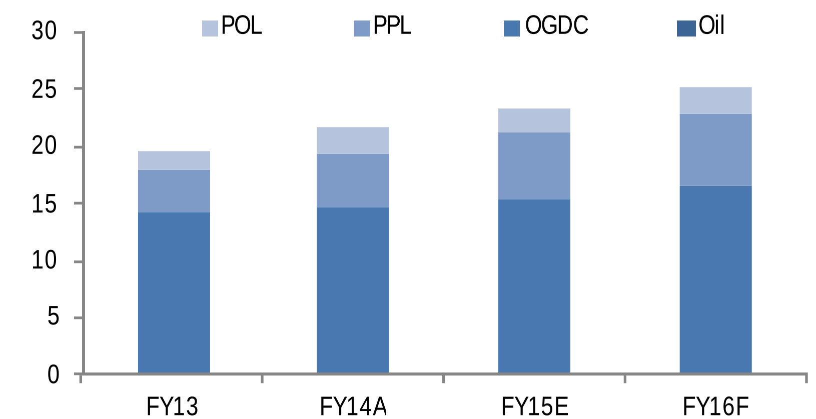
- Sharp decline/increase in crude oil price
- Delay in development project

Exhibit: E&P Sector Oil Production



Source: SBP, AHL Research

Exhibit: E&P Sector Gas Production



Source: SBP, AHL Research

Exploration & Production

Oil Price Sensitivity

- Due to volatility in oil prices and uncertainty in regards to where prices will settle down, we have presented below our Case-1, Case-2 and Case-3 fair values of our E&P companies. We anticipate a reverse in oil prices evident from oil price future contracts are in a state of contango.

				Fair Value - Case-1			Fair Value - Case-2			Fair Value - Case-3		
Oil Prices Assumption (USD/bbl)	Symbol	Price*	Outstanding Shares (mn)	Short term	Medium term	Long term	Short term	Medium term	Long term	Short term	Medium term	Long term
				60	70	80	50	60	70	70	80	90
Pakistan Petroleum Ltd.	PPL	176.5	237	229.83			217.45			242.22		
Pakistan Oilfields Ltd.	POL	379.4	1,972	485.34			428.3			542		
Oil and Gas Dev Co.	OGDC	205.9	4,300.90	230.97			219.33			240.73		

Source: AHL Research, *Closing price as of Dec 31st , 2014

- For every USD10/bbl change in oil price the earnings estimates for FY16F of E&P AHL Universe are changed are as follows:

Company	USD40	USD50	USD60	USD70	USD80
POL	35.1	41.1	47.2	53.2	59.3
PPL	15.2	17.3	19.4	21.5	23.5
OGDC	17.2	19.2	21.2	23.2	25.2

Source: AHL Research

Exploration & Production

Pakistan Oilfields Limited

Recommendation	BUY
Target Price	492.0
Current Price	379.4
Upside	29.7%
Bloomberg Code	POL PA
Free float	46%

Major Shareholders – Attock Oil Company & State Life Insurance

Key Investment Theme

- **Negative sentiments overplayed:** At current price level, the stock of POL is trading at an implied oil price of USD50/bbl, however currently oil price are trading at USD57/bbl. In addition to this we are of view oil prices have bottomed out, thus POL would be the major beneficiary if oil price move northwards. For every USD10/bbl upwards movement in oil price, POL earnings would be revised by ~+11% .
- **Offering one of the best dividend yield:** In times of monetary easing, where discount is expected to ease further, POL offers a lucrative dividend yield of 11% compared to AHL E&P universe of 5.1% and market dividend yield of 6.2% .
- **Trading at attractive valuations**: At current price level of the stocks offers an upside of 25% based on our reserve based Dec-15 TP of 473/sh. Additionally the stock is trading at a forward PER of 7.4x compared to market PER of 8.5% , a discount of 13% . The stocks offers a ROE is 35% ,
- **Profitability growth:** The company is expected to exhibit an earnings CAGR of 5% over FY15E-FY17F to PKR 56.6/share. In addition the stock is immune from circular debt given it group stake in both downstream and upstream activities.

Risks

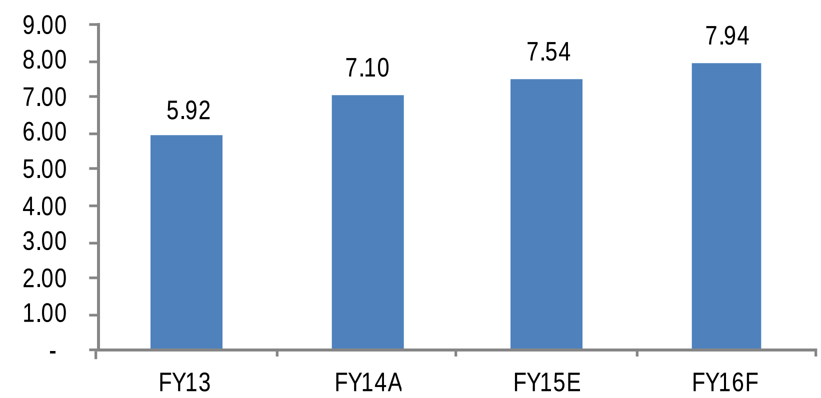
- Declining oil price and PKR appreciation against USD.
- Delay in development projects may cause lower than expected production growth.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	54.5	51.1	53.2
Dividend per Share - PKR	60.0	40.8	42.6
Price to Earning (x)	7.0	7.4	7.1
Price to Book (x)	2.5	2.6	2.4
Dividend Yield (%)	15.8	10.8	11.2
Return on Assets (%)	22.3	21.2	21.8
Return on Equity (%)	36.6	34.8	35.4
EBITDA Margins (%)	70.1	67.1	67.4
Net Margins (%)	36.3	40.8	40.5

Source: Company Financials, AHL Research

Exhibit: POL Production Trend



Source: Company Financials, AHL Research

Exploration & Production

Pakistan Oilfields Limited

Target Price			492.0
Current Price			379.4
Upside			29.7%
Market Capitalization (PKR mn)			89,736
Market Capitalization (USD mn)			888
PKR mn	**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement			
Sales			
Gross Profit	35,540	29,633	31,065
Other Income	19,010	17,117	17,578
Finance Cost	1,823	1,943	1,900
Post Tax Profit	654	589	647
Balance Sheet			
Shareholder's Equity	35,196	34,164	36,887
Long Term Loans	-	-	-
Total Non-Current Liabilities	14,339	15,024	15,744
Trade Payables	5,782	4,821	5,054
Total Current Liabilities	8,334	6,632	6,942
Total Equity & Liabilities	57,869	55,820	59,573
Non-Current Assets	36,771	39,963	43,428
Current Assets	21,098	15,857	16,145
Total Assets	57,869	55,820	59,573
Cash Flow Statement			
From Operating Activities	18,248	14,154	14,888
From Investing Activities	(4,276)	(4,860)	(5,176)
From Financing Activities	(10,624)	(13,110)	(9,868)
Net Change in Cash	3,577	(3,817)	(155)
Ending Cash	10,826	7,009	6,854

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	-28.6	-33.9	-23.8
Average Volume (mn Shares)	0.4	0.3	0.3
High Price - PKR	532.1	559.9	559.9
Low Price - PKR	361.9	361.9	361.9
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	54.5	51.1	53.2
Book Value per Share - PKR	148.8	144.4	155.9
Dividend per Share - PKR	60.0	40.8	42.6
Dividend Payout Ratio (%)	110.1	80.0	80.0
Price Ratios			
Price to Earning (x)	7.0	7.4	7.1
Price to Book (x)	2.5	2.6	2.4
Dividend Yield (%)	15.8	10.8	11.2
Profitability Ratios			
Gross Margins (%)	53.5	57.8	56.6
EBIT Margins (%)	50.3	54.4	54.2
EBITDA Margins (%)	70.1	67.1	67.4
Net Margins (%)	36.3	40.8	40.5
Financial Leverage Ratios			
Debt to Equity (x)	-	-	-
Debt to Assets (x)	-	-	-
Return Ratios			
Interest Coverage Ratio (x)	38.1	33.8	32.4
Earning Yield (%)	14.4	13.5	14.0
Return on Assets (%)	22.3	21.6	21.1
Return on Equity (%)	36.6	35.4	34.1

Exploration & Production

Pakistan Petroleum Limited

Recommendation	BUY
Target Price	237.0
Current Price	176.5
Upside	34.3%
Bloomberg Code	PPL PA
Free float	24%

Major Shareholders – Govt of Pakistan & PPL Employees Empowerment Trust

Key Investment Theme

- **Negative PPL ramping up its oil production:** While gas depletion is worrying factor, we see PPL ramping up its oil exploration business, which we estimate would be able to substitute slowdown in gas-based revenues. In FY15 PPL oil production is expected to exhibit a growth of 23% YoY led by Nashpa and Makori East.
- **Least Sensitive to Oil price change;** However overall, we think the negative sentiments of declining oil prices have overplayed in PPL valuation given lower sensitivity of Oil in the company compared to its peers OGDC and POL. For every USD+5/bbl change in earnings the company's earnings are revised by 7%. At current price level the stock is trading at an implied oil price of USD50/bbl, thus current price levels warrants a great buying opportunity.
- **Profitability growth:** The company is expected to show a earnings decline of 11% in FY15E to PKR 23.21/sh on account of the recent plunge in oil prices.
- **Tight Gas on Focus:** With continued focus on delivering tight gas discoveries (priced at ~USD6.0/mmbtu), PPL is now further evaluating alternatives including shale gas and offshore drilling to boost its production profile. In this regard, the company is looking to make a footprint in the global market and has won exploration rights for Block-8 in Iraq and is also a JV partner in Block 29 in Yemen.
- **Attractive multiples:** The stock is currently trading at FY15E PER of 7.6x, while offering a dividend yield of 7%.

Risks

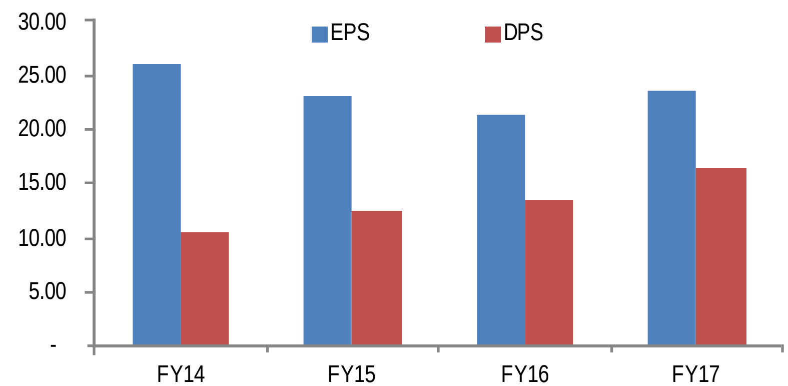
- Declining oil price and PKR appreciation against USD.
- Delay in development projects may cause lower than expected production growth.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	26.1	23.2	21.4
Dividend per Share - PKR	11.0	12.5	13.5
Price to Earning (x)	6.8	7.6	8.2
Price to Book (x)	1.9	1.7	1.6
Dividend Yield (%)	6.2	7.1	7.6
Return on Assets (%)	22.9	18.1	15.3
Return on Equity (%)	31.0	23.8	20.2
EBITDA Margins (%)	69.6	68.6	68.9
Net Margins (%)	42.9	41.1	41.0

Source: Company Financials, AHL Research

Exhibit: PPL Production Trend



Source: Company Financials, AHL Research

Exploration & Production

Pakistan Petroleum Limited

Target Price			237.0
Current Price			176.5
Upside			34.3%
Market Capitalization (PKR mn)			348,050
Market Capitalization (USD mn)			3,480
PKR mn	**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement			
Sales	119,811	111,257	103,152
Gross Profit	84,837	75,878	68,567
Other Income	6,381	7,934	10,085
Finance Cost	426	400	418
Post Tax Profit	51,417	45,760	42,285
Balance Sheet			
Shareholder's Equity	181,917	202,045	216,726
Long Term Loans	-	-	-
Total Non-Current Liabilities	32,685	33,371	34,371
Trade Payables	17,916	31,152	28,883
Total Current Liabilities	21,741	34,977	32,708
Total Equity & Liabilities	236,343	270,393	283,805
Non-Current Assets	153,594	154,920	153,315
Current Assets	82,748	115,473	130,489
Total Assets	236,343	270,393	283,805
Cash Flow Statement			
From Operating Activities	31,833	78,932	50,307
From Investing Activities	(25,702)	(10,028)	(6,856)
From Financing Activities	(19,024)	(24,946)	(26,604)
Net Change in Cash	(12,892)	43,958	16,847
Ending Cash	21,626	46,234	63,081

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	-21.9	-21.3	-17.5
Average Volume (mn Shares)	1.8	1.8	1.6
High Price - PKR	218.4	227.3	237.3
Low Price - PKR	172.5	172.5	172.5
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	26.08	23.21	21.45
Book Value per Share - PKR	92.3	102.5	109.9
Dividend per Share - PKR	11.0	12.5	13.5
Dividend Payout Ratio (%)	42.2	53.9	62.9
Price Ratios			
Price to Earning (x)	6.8	7.6	8.2
Price to Book (x)	1.9	1.7	1.6
Dividend Yield (%)	6.2	7.1	7.6
Profitability Ratios			
Gross Margins (%)	70.8	68.2	66.5
EBIT Margins (%)	62.6	60.8	60.7
EBITDA Margins (%)	69.6	68.6	68.9
Net Margins (%)	42.9	41.1	41.0
Financial Leverage Ratios			
Debt to Equity (x)	-	-	-
Debt to Assets (x)	-	-	-
Return Ratios			
Interest Coverage Ratio (x)	196.1	190.9	170.2
Earning Yield (%)	6.8	7.6	8.2
Return on Assets (%)	22.9	18.1	15.3
Return on Equity (%)	31.0	23.8	20.2

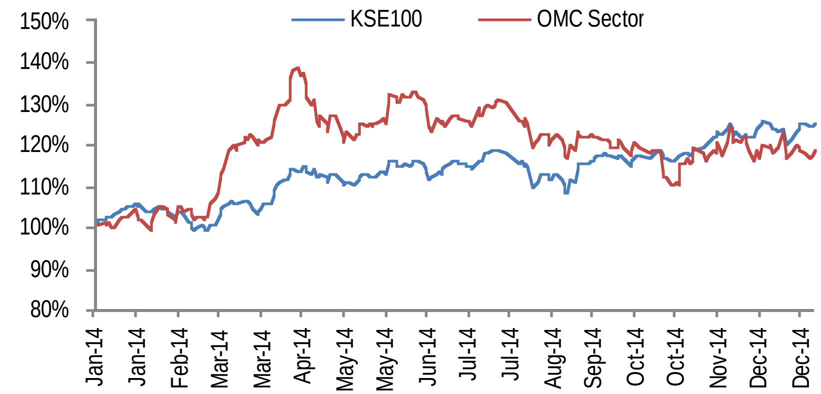
Oil & Marketing

Sector Performance

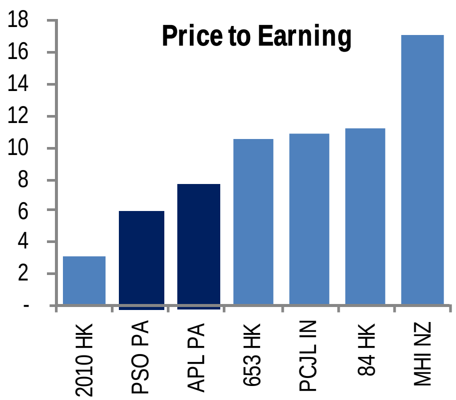
Exhibit: Sector's Key Statistics	**CY14**
No of Listed Companies	3
Average Daily Turnover (mn Shares)	2.7
Market Cap. (PKR mn)	169,697.4
Market Cap. (USD mn)	1,697.0
Return (%)	26.1
PE (x)	10.1
PB (x)	2.1
ROE (%)	20.4
ROA (%)	4.7
Dividend Yield (%)	3.0

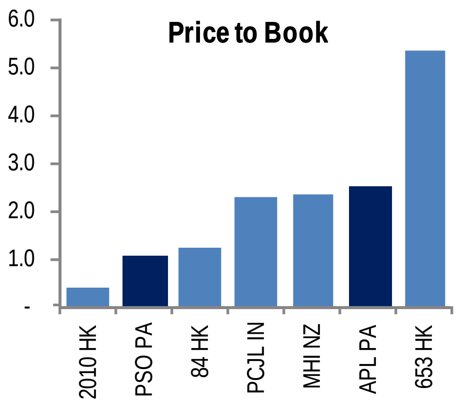
Source: Bloomberg, AHL Research

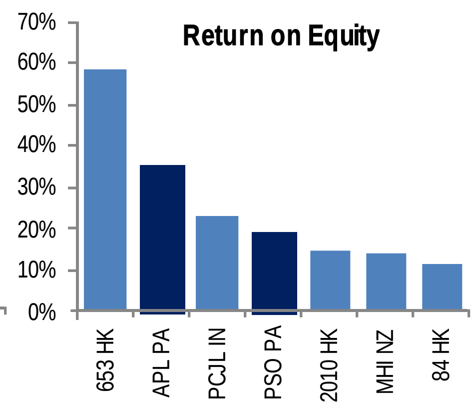
Exhibit: OMC Sector Performance Relative to KSE100

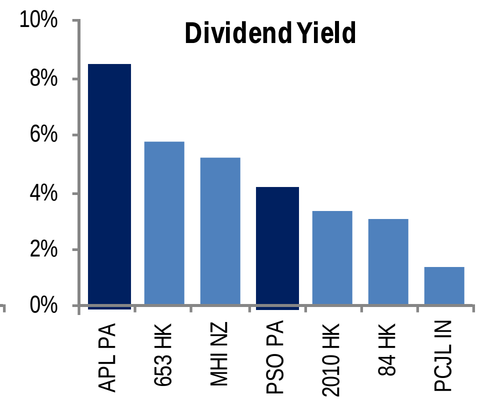


Source: KSE, AHL Research









Oil Marketing

Circular Debt improvement to lead the way

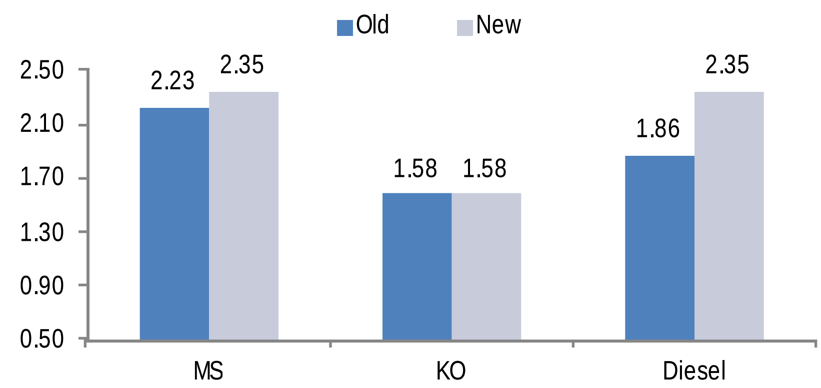
Key drivers

- **Power sector reforms to benefit OMCs:** Power tariff increase will pave the way for liquidity improvement in the energy chain as power subsidy is one of the major reasons for resurrection of the circular debt. We believe that improving liquidity would be a major trigger for the re-rating of OMCs stocks going forward, particularly for PSO. Its is currently trading at FY15E PE of 5.1x compared to market PER of 8.5x for FY15E. Prices of POL product have decline considerably that should further improve liquidity for the energy chain.
- **Scarcity of CNG demands for transportation fuel:** Due to curtailment of gas to the CNG sector on the back of limited gas supply, demand of Petrol and Diesel has been on the rise, evident from 16% YoY and 1% YoY growth, respectively, recorded in FY14. We foresee this trend to strengthen further as the government continues to discourage the usage of CNG.
- **Improving liquidity spurs FO demand:** Improving liquidity, government's effort to minimize load-shedding alongside decline in FO prices (-40% YoY in CY14), should further accelerate demand for FO in 2015.
- **Petrol and Diesel margins up 5% and 23%, respectively:** The Ministry of Petroleum and Natural Resources has increased Petrol and Diesel margins by 5% and 26% to both PKR 2.35/litre. This should ~ improve PSO and APL's earnings by 11% and 8% YoY, respectively.

Risks

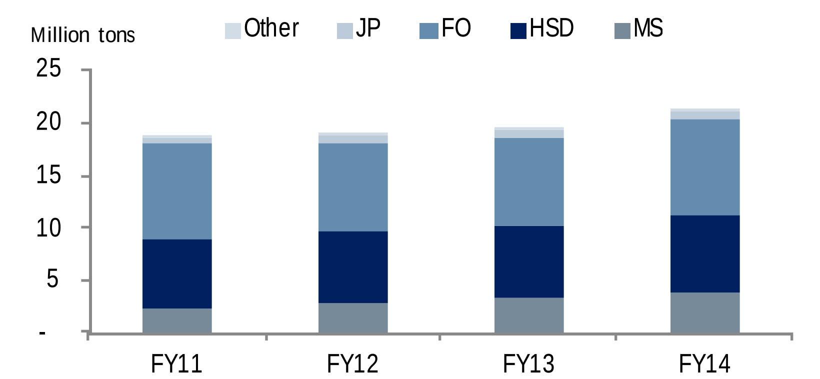
- Drop in oil price would decrease margins on deregulated products and inventory loss.
- Government's failure to curb circular debt problem, exchange losses due PKR depreciation.

Exhibit: Increase in Margins



Source: KSE, AHL Research

Exhibit: Increase in Margins



Source: KSE, AHL Research

Oil Marketing

Pakistan State Oil

Recommendation	BUY
Target Price	510.0
Current Price	357.9
Upside	42.5%
Bloomberg Code	PSO PA
Free float	47%
Major Shareholders – Govt of Pakistan & NBP Trustee Dept	

Key Investment Theme

- **Resolution of Circular Debt:** Rationalization of power tariff and substantial reduction in subsidy are the major steps forward towards the eradication of circular debt. With 73% share in FO market, PSO will be the major beneficiary of circular debt resolution.
- **Volumetric growth:** With largest market share, PSO will be the major beneficiary of growth in Petrol, Diesel and FO, mainly on account of CNG shortage and improving load factor of power sector.
- **Petrol and Diesel margins up 5% and 23%, respectively:** The Ministry of Petroleum's has raised Petrol and Diesel margins by 5% and 26%, respectively, to PKR 2.35/litre. This should improve PSO earnings by 11%, respectively. However, FO prices have declined considerably (40% YoY in CY14) which will partially offset the impact of margin raise.
- **Penal income:** The company recorded PKR 12bn as penal income in FY14 compared to PKR 6bn in FY13. We have assumed PKR4.5bn in FY15E as penal mark up, any amount under or above the amount assumed may change our earnings expectations for FY15. At present, ~PKR 45bn penal income is yet to be received by PSO from HUBC, KAPCO and WAPDA.
- **Earnings growth at 3-year CAGR of 14%:** PSO earnings is expected to stay depressed in FY15E (PKR 53.80/share) on account of one-off inventory loss and declining FO prices (non-regulated product). However, going forward we expect bottomline to jump at 2-year CAGR of 9% to PKR 64.6/share in FY17.

Risks

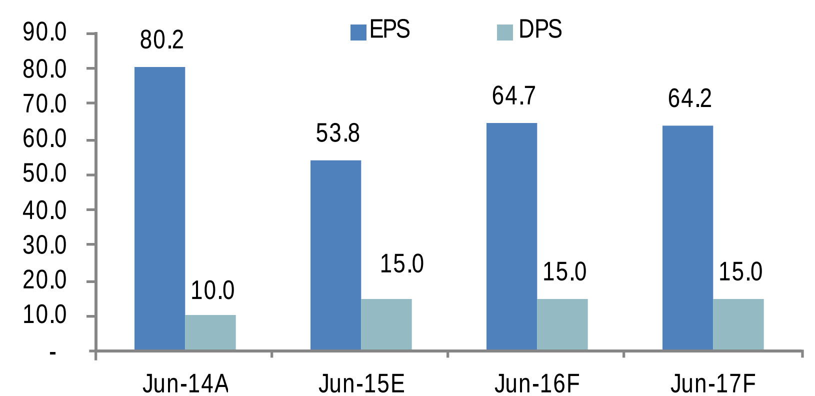
- Resurrection of the circular debt.
- Decline in oil prices leads to drop in margins of deregulated products and causes inventory losses.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	80.3	53.8	64.8
Dividend per Share - PKR	10.0	15.0	15.0
Price to Earning (x)	4.5	6.6	5.5
Price to Book (x)	1.2	1.1	0.9
Dividend Yield (%)	2.8	4.2	4.2
Return on Assets (%)	5.9	4.5	5.0
Return on Equity (%)	27.8	16.3	17.0
EBITDA Margins (%)	3.7	2.9	3.1
Net Margins (%)	1.8	1.4	1.6

Source: Company Financials, AHL Research

Exhibit: EPS/DPS trend to follow



Source: Company Financials, AHL Research

Oil & Marketing

Pakistan State Oil Company

Target Price	510.0
Current Price	357.9
Upside	42.5%
Market Capitalization (PKR mn)	97,239
Market Capitalization (USD mn)	963

Relative Performance	3M	6M	12M
Total Return (%)	-0.7	-7.7	18.5
Average Volume (mn Shares)	1.7	1.6	2.1
High Price - PKR	380.5	401.3	444.0
Low Price - PKR	325.6	325.6	294.7

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	1,187,639	1,061,515	1,124,408
Gross Profit	36,824	31,055	37,549
Other Income	19,518	12,388	12,087
Finance Cost	9,544	7,689	7,858
Post Tax Profit	21,818	14,626	17,607
Balance Sheet			
Shareholder's Equity	78,621	89,851	103,384
Long Term Loans	-	-	-
Total Non-Current Liabilities	5,184	5,184	5,184
Trade Payables	194,008	175,037	184,617
Total Current Liabilities	288,346	229,402	243,316
Total Equity & Liabilities	372,151	324,438	351,884
Non-Current Assets	58,637	58,375	57,904
Current Assets	313,514	266,062	293,979
Total Assets	372,151	324,438	351,884
Cash Flow Statement			
From Operating Activities	(57,326)	56,254	22,645
From Investing Activities	(760)	(857)	(649)
From Financing Activities	63,682	(43,368)	258
Net Change in Cash	5,596	12,029	22,255
Ending Cash	9,119	21,148	43,403

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	80.3	53.8	64.8
Book Value per Share - PKR	289.4	330.7	380.5
Dividend per Share - PKR	10.0	15.0	15.0
Dividend Payout Ratio (%)	12.5	27.9	23.1
Price Ratios			
Price to Earning (x)	4.5	6.6	5.5
Price to Book (x)	1.2	1.1	0.9
Dividend Yield (%)	2.8	4.2	4.2
Profitability Ratios			
Gross Margins (%)	3.1	2.9	3.3
EBIT Margins (%)	3.6	2.8	3.0
EBITDA Margins (%)	3.7	2.9	3.1
Net Margins (%)	1.8	1.4	1.6
Financial Leverage Ratios			
Debt to Equity (x)	1.17	0.58	0.55
Debt to Assets (x)	0.25	0.16	0.16
Return Ratios			
Interest Coverage Ratio (x)	4.4	3.8	4.3
Earning Yield (%)	22.4	15.0	18.1
Return on Assets (%)	5.9	4.5	5.0
Return on Equity (%)	27.8	16.3	17.0

Fertilizer

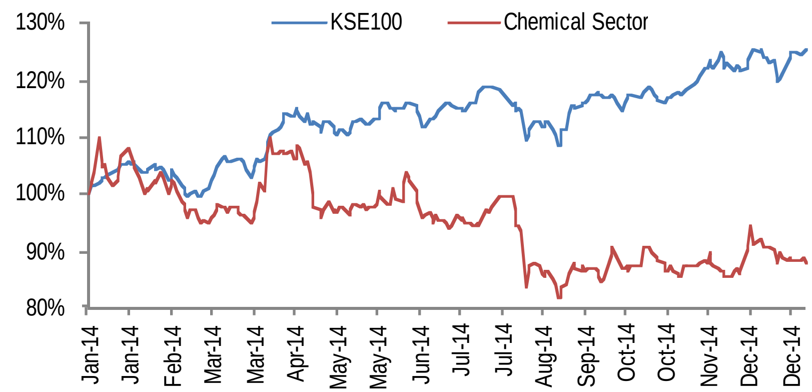
Sector Performance

Exhibit: Sector's Key Statistics (**Chemical Sector**)

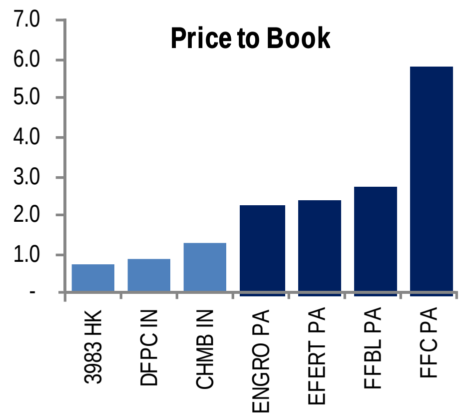
	CY14
No of Listed Companies	34
Average Daily Turnover (mn Shares)	1.41
Market Cap. (PKR mn)	658,173
Market Cap. (USD mn)	6,582
Return (%)	44.8%
PE (x)	14.7
PB (x)	3.5
ROE (%)	35.6%
ROA (%)	10.9%
Dividend Yield (%)	5.9%

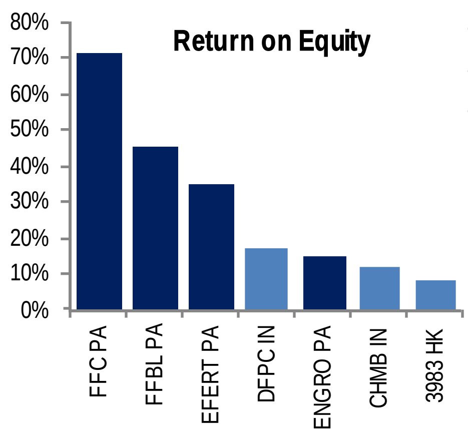
Source: Bloomberg, AHL Research

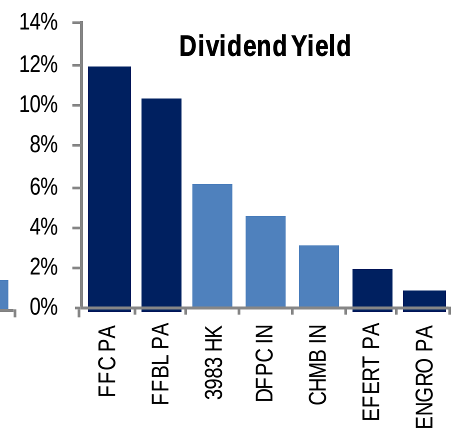
Exhibit: Fertilizer Sector Performance Relative to KSE100



Source: KSE, AHL Research







Fertilizer

Offering Healthy Returns

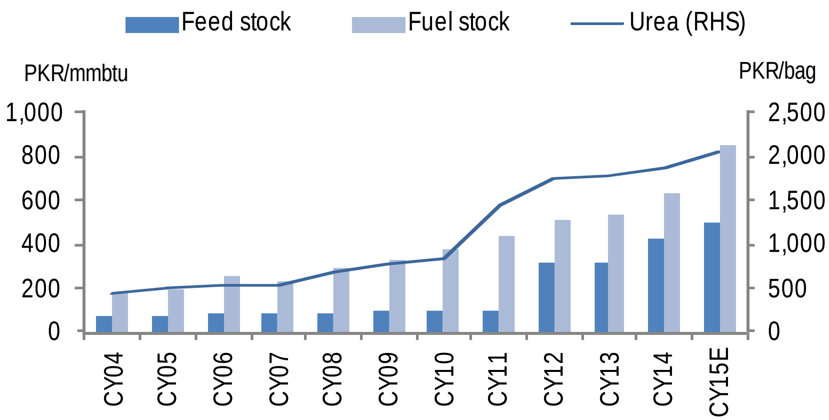
Key drivers

- **Gas price hike on cards:** The government is all set to increase gas prices effective from Jan-15 onwards. As per media reports, feed stock and fuel stock prices would increase by PKR 76/mmbtu and PKR 262/mmbtu to PKR 200/mmbtu and PKR 750/mmbtu, respectively.
- **Impact is significant:** The impact of the gas price hike would be significant as fertilizer manufacturers would have to increase urea and DAP prices by an average of PKR 190/bag and PKR 85/bag, respectively in order to nullify the impact of the gas price hike.
- **Long term gas plan:** Fertilizer sector **is** still waiting for the clarity on the long term gas plan earmarked by the government earlier. The ECC has to reconfirm the gas allocation from Kunnar Pashaki Deep (KPD) field.
- **Guddu gas flows:** The government has recently approved the agreement between Engro Fertilizer Limited (EFERT) and TPS Guddu for the use of 60mmcfd gas from Mari to EFERT till Dec-15. Furthermore, EFERT would have to install gas booster for GENCO-II during this tenure.

Risks

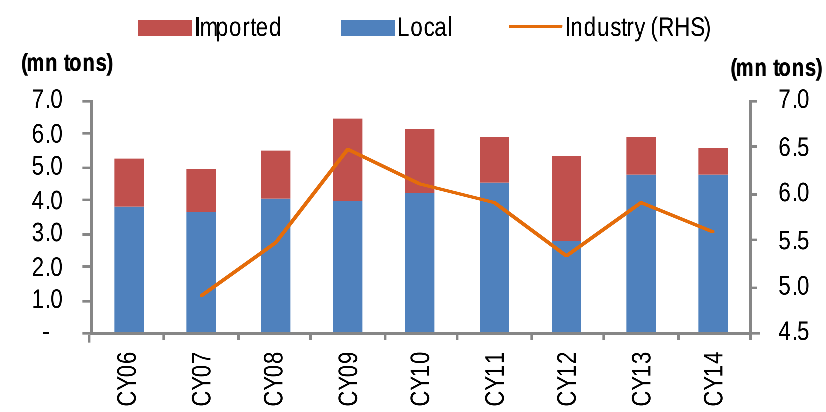
- Failure to pass on the impact of gas price hike.
- Implementation of gas levy over and above GIDC, and failure of passing on of the same to the farmer/end consumer.
- Commitment of gas to EFERT at USc 70/mmbtu may raise risk of price reduction for the sector.

Exhibit: Feed Stock, Fuel Stock and Urea Prices Trend



Source: Bloomberg, AHL Research

Exhibit: Fertilizer Sector Off-take Trends



Source: Bloomberg, AHL Research

Fertilizer

Fauji Fertilizer Company Ltd.

Recommendation	BUY
Target Price	139.0
Current Price	117.1
Upside	18.7%
Bloomberg Code	FFC PA
Free float	55%
Major Shareholders – Fauji Foundation and NIT	

Key Investment Theme

- **Protected investment:** The 2nd largest urea manufacturer with prime market share stands as the most secure investment in the sector in terms of: 1) lower gas curtailment, (the company suffers lowest gas outages, around 8% -12% on annual basis), and 2) benefits on urea pricing gains (5% since start of CY14).
- **Diversified investments:** FFC has diversified investment base, with investments in FFBL, S.A (PMP) and FCCL. In addition, other investments including Wind Power, Al-Hamd Foods and Askari Bank Limited (AKBL) are going to translate positively on company's books in the near future.
- **Operational excellency:** With the continuous debottlenecking of three of its plants, the company has an ability to operate at 120% capacity (3-year average) amid secure gas supply from the Mari field.
- **Lucrative yields:** High dividend payout ratio of (3-year average at 90%) translates into attractive dividend yield of 12% for CY15 (compare it with 5-year PIB that is trading at 9.7%).

Risks

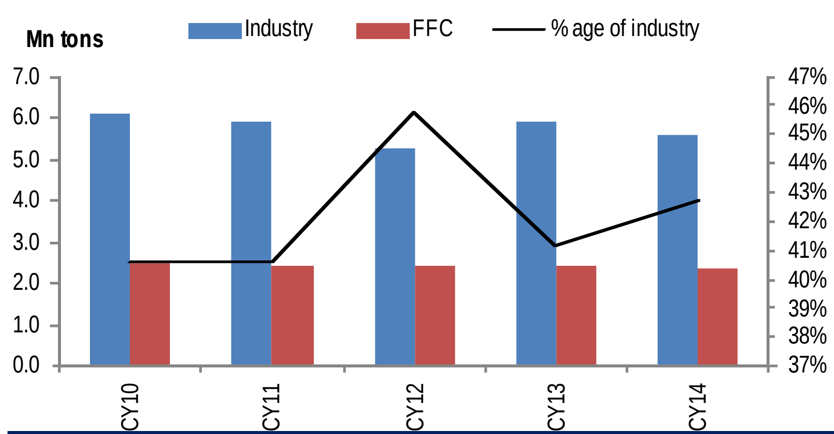
- Provision of the committed gas sale price (USc 70/mmbtu) to EFERT (expected in CY15) may lead to fall in urea prices and thus affect earnings.
- Reduction in price of urea by PKR 50/bag will hurt FCC's EPS by PKR 1.1.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	15.8	13.1	14.3
Dividend per Share - PKR	15.4	13.0	14.0
Price to Earning (x)	7.4	8.9	8.2
Price to Book (x)	5.9	5.9	5.8
Dividend Yield (%)	13.1	11.1	12.0
Return on Assets (%)	50.7	47.4	40.8
Return on Equity (%)	18.8	17.1	14.9
EBITDA Margins (%)	40.5	34.6	35.7
Net Margins (%)	27.0	22.3	23.1

Source: Company Financials, AHL Research

Exhibit: FFC & Industry Fertilizer Off-take…



Source: Company Financials, AHL Research

Fertilizer

Fauji Fertilizer Company Limited

Target Price			139.0
Current Price			117.1
Upside			18.7%
Market Capitalization (PKR mn)			148,992
Market Capitalization (USD mn)			1,490

Relative Performance	3M	6M	12M
Total Return (%)	3.2	4.3	4.6
Average Volume (mn Shares)	0.9	1.1	1.2
High Price - PKR	121.4	121.4	121.4
Low Price - PKR	110.0	102.6	98.1

PKR mn	Dec-13A	Dec-14E	Dec-15F
Income Statement			
Sales	74,481	74,885	78,629
Gross Profit	34,532	29,465	31,772
Other Income	4,368	4,976	5,420
Finance Cost	756	1,196	1,175
Post Tax Profit	20,135	16,726	18,147
Balance Sheet			
Shareholder's Equity	25,151	25,342	25,680
Long Term Loans	4,280	2,500	1,150
Total Non-Current Liabilities	8,358	6,293	4,677
Trade Payables	21,854	24,909	25,630
Total Current Liabilities	34,319	38,754	39,680
Total Equity & Liabilities	67,829	70,389	70,038
Non-Current Assets	41,502	40,915	41,815
Current Assets	26,328	29,473	28,223
Total Assets	67,829	70,389	70,038
Cash Flow Statement			
From Operating Activities	25,497	14,798	15,127
From Investing Activities	(8,998)	3,869	2,655
From Financing Activities	(17,478)	(17,221)	(19,218)
Net Change in Cash	(979)	1,445	(1,436)
Ending Cash	20,322	21,767	20,331

	Dec-13A	Dec-14E	Dec-15F
Shareholder Ratios			
Earning per Share - PKR	15.8	13.1	14.3
Book Value per Share - PKR	19.8	19.9	20.2
Dividend per Share - PKR	15.4	13.0	14.0
Dividend Payout Ratio (%)	97.0	98.9	98.1
Price Ratios			
Price to Earning (x)	7.4	8.9	8.2
Price to Book (x)	5.9	5.9	5.8
Dividend Yield (%)	13.1	11.1	12.0
Profitability Ratios			
Gross Margins (%)	46.4	39.3	40.4
EBIT Margins (%)	40.5	34.6	35.7
EBITDA Margins (%)	42.6	36.9	38.0
Net Margins (%)	27.0	22.3	23.1
Financial Leverage Ratios			
Debt to Equity (x)	0.5	0.5	0.4
Debt to Assets (x)	0.2	0.2	0.1
Return Ratios			
Interest Coverage Ratio (x)	34.1	17.5	19.2
Earning Yield (%)	13.5	11.2	12.2
Return on Assets (%)	50.7	47.4	40.8
Return on Equity (%)	18.8	17.1	14.9

Recommendation	BUY
Target Price	60.7
Current Price	45.2
Upside	34.3%
Bloomberg Code	FFBL PA
Free float	35%
Major Shareholders - FFC & Fauji Foundation	

Fertilizer

Fauji Fertilizer Bin Qasim Ltd.

Key Investment Theme

- **Diversified Investment portfolio:** Amid expected shortage of gas going forward, FFBL's management is pursuing a diversification strategy with investments including: 1) two wind power projects which are expected to came online by 1QCY15 (EPS impact PKR 0.85), 2) Meat business (Fauji Meat Limited) worth PKR 6bn with expected Debt-Equity ratio of 75:25, 3) 110 MW coal fired power plant, which will replace fuel stock gas, is expected to came online in CY18, 4) recently showed its intention to acquire Noon Pakistan Limited with 24.99% stake (expected FFBL cash outflow of PKR 327mn or PKR 0.35/share)
- **Focus to remain on DAP:** In the scenario of gas outages, the company focus would remain on DAP as it requires lower supply gas than urea does. In CY14, the company operated its DAP plant on 116% utilization level.
- **DAP primary margins on thriving mode:** DAP primary margins (PM) remained stagnant on YoY basis to USD 274/ton in CY14. We expect PM to grow (+3% YoY) in CY15E as FFBL has increased DAP prices by PKR 270/bag in 4QCY14 (PM clocked in at USD 284/tons).
- **Pricing power:** Local DAP has always been sold on premium in comparison with international DAP prices. Current premium with the int'l prices stood at 24% while average premium for the last 5 years has been recorded at 33%.

Risks

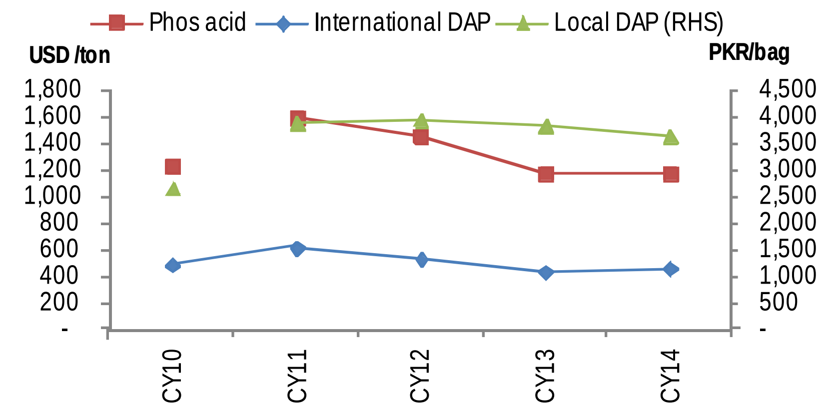
- For every PKR 100/bag reduction in DAP prices, primary margins would shrink by USD 16/ton, translating into annual impact on bottomline by PKR - 0.68/share.
- Extended gas shutdown amid winter season gas curtailment.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	6.0	5.5	6.1
Dividend per Share - PKR	5.0	4.8	5.0
Price to Earning (x)	7.5	8.3	7.4
Price to Book (x)	3.1	2.9	2.7
Dividend Yield (%)	11.1	10.5	11.1
Return on Assets (%)	14.4	13.7	14.8
Return on Equity (%)	42.6	36.2	38.2
EBITDA Margins (%)	18.1	17.2	17.4
Net Margins (%)	10.3	9.7	10.2

Source: Company Financials, AHL Research

Exhibit: Phos Acid, Local DAP & International DAP Prices Trend



Source: Company Financials, AHL Research

Fertilizer

Fauji Fertilizer Bin Qasim Limited

Target Price	60.7
Current Price	45.2
Upside	34.3%
Market Capitalization (PKR mn)	42,231
Market Capitalization (USD mn)	422

Relative Performance	3M	6M	12M
Total Return (%)	12.4	13.7	3.2
Average Volume (mn Shares)	1.8	1.6	1.1
High Price - PKR	45.7	45.7	45.7
Low Price - PKR	39.5	36.6	36.5

PKR mn	Dec-13A	Dec-14E	Dec-15F
Income Statement			
Sales	54,455	52,514	56,014
Gross Profit	14,513	12,988	13,750
Other Income	494	1,373	1,720
Finance Cost	1,515	1,415	1,198
Post Tax Profit	5,613	5,110	5,735
Balance Sheet			
Shareholder's Equity	13,788	14,461	15,525
Long Term Loans	584	389	195
Total Non-Current Liabilities	4,045	3,881	3,717
Trade Payables	8,372	9,075	10,126
Total Current Liabilities	19,329	18,926	21,002
Total Equity & Liabilities	37,162	37,268	40,244
Non-Current Assets	23,002	22,923	23,432
Current Assets	14,160	14,345	16,812
Total Assets	37,162	37,268	40,244
Cash Flow Statement			
From Operating Activities	9,940	8,699	9,218
From Investing Activities	(10,246)	(1,369)	(2,083)
From Financing Activities	(1,369)	(7,154)	(5,039)
Net Change in Cash	(1,675)	176	2,096
Ending Cash	2,478	2,654	4,750

	Dec-13A	Dec-14E	Dec-15F
Shareholder Ratios			
Earning per Share - PKR	6.0	5.5	6.1
Book Value per Share - PKR	14.8	15.5	16.6
Dividend per Share - PKR	5.0	4.8	5.0
Dividend Payout Ratio (%)	83.2	86.8	81.4
Price Ratios			
Price to Earning (x)	7.5	8.3	7.4
Price to Book (x)	3.1	2.9	2.7
Dividend Yield (%)	11.1	10.5	11.1
Profitability Ratios			
Gross Margins (%)	26.7	24.7	24.5
EBIT Margins (%)	18.1	17.2	17.4
EBITDA Margins (%)	18.1	17.2	17.4
Net Margins (%)	10.3	9.7	10.2
Financial Leverage Ratios			
Debt to Equity (x)	0.8	0.6	0.7
Debt to Assets (x)	0.3	0.2	0.3
Return Ratios			
Interest Coverage Ratio (x)	6.5	6.4	8.1
Earning Yield (%)	13.3	12.1	13.6
Return on Assets (%)	14.4	13.7	14.8
Return on Equity (%)	42.6	36.2	38.2

Fertilizer

Engro Corporation Limited

Recommendation	BUY
Target Price	376.1
Current Price	221.5
Upside	69.8%
Bloomberg Code	ENGRO PA
Free float	45%

Major Shareholders – Dawood Hercules Corp., Patek Private Ltd.

Key Investment Theme

- **EFERT:** The company is expected to remain a major contributor to ENGRO's profitability by contributing 73% in CY14. The major triggers ahead would be concessionary gas at USD 0.7/mmbtu coupled with Guddu gas flow till Dec'15.
- **EFOODS:** We expect the company to post profit PAT of PKR 1,465mn (EPS: PKR 1.92) in CY15, massively up 73% YoY. Major drivers include revival of volumes in low-end UHT milk segment (Tarang and Omung) coupled with expected price increase and absence of one-time loss from Engro Foods Canada.
- **EPCL:** On chemical side, we expect the company to post PAT of PKR 1,140mn (EPS: PKR 1.71) in CY15 mainly due to improved VCM production (+15% YoY) along with better PVC margins and successful debottlenecking of PVC plant.
- **EXIMP:** Installation of 4MW stream turbine, successful launch of company's new rice brand 'Rymah' and introduction of 'Bharosa' rice outlet coupled with attractive primary margins on DAP trading, are expected to lift company's earnings to PKR 126mn in CY15.
- **ELENGY:** Engro Elengy is in process of setting up a re-gasification facility and handling of LNG on tolling basis for 15 years. The volume would be 200mmcfd for first year and 400mmcfd from second year onwards. The company is expected to contribute PKR 0.84/share and PKR 1.72/share in CY15 and CY16 earnings, respectively.

Risks

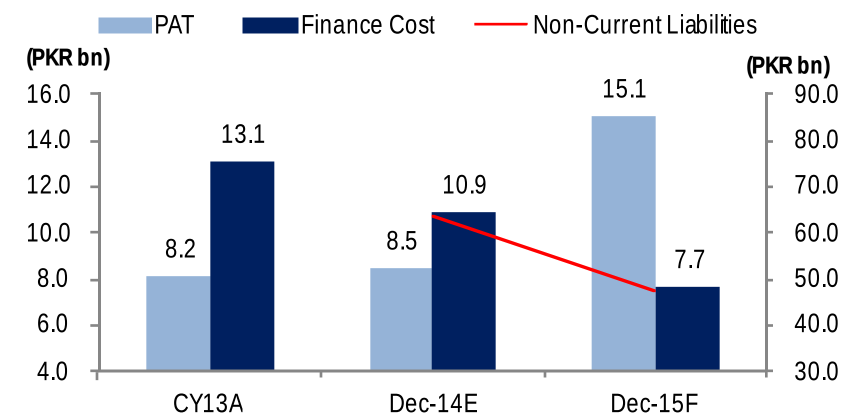
- Unavailability of concessionary gas, any change in KPD plan, subdued dairy margins, declining PVC margins, further loss in EXIMP from rice business.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	15.6	16.2	28.8
Dividend per Share - PKR	-	4.0	8.0
Price to Earning (x)	14.2	13.7	7.7
Price to Book (x)	2.1	1.9	1.6
Dividend Yield (%)	-	1.8	3.6
Return on Assets (%)	14.6	14.5	22.6
Return on Equity (%)	4.0	4.4	9.2
EBITDA Margins (%)	18.7	15.0	20.0
Net Margins (%)	5.3	5.3	8.9

Source: Company Financials, AHL Research

Exhibit: Increasing Profitability & Declining Finance Cost



Source: Company Financials, AHL Research

Fertilizer

Engro Corporation Limited

Target Price			376.1
Current Price			221.5
Upside			69.8%
Market Capitalization (PKR mn)			115,805
Market Capitalization (USD mn)			1,158
PKR mn	**Dec-13A**	**Dec-14E**	**Dec-15F**
Income Statement			
Sales	155,359	160,057	169,515
Gross Profit	40,597	38,709	50,063
Other Income	2,686	1,718	2,720
Finance Cost	13,101	10,948	7,693
Post Tax Profit	8,183	8,488	15,090
Balance Sheet			
Total Non-Current Assets	137,269	131,879	125,912
Total Current Assets	69,638	44,864	25,766
Total Assets	206,907	176,743	151,678
Total Equity	56,203	60,760	72,967
Total Non-Current Liabilities	86,455	63,522	47,415
Total Current Liabilities	64,249	52,461	31,296
Total Equity and Liablities	206,907	176,743	151,678

Sum of the Parts Valuation (SoTP)

Company	DCF	Stake	Adjusted	TP
Engro Fertilizer	131,121	88.0%	115,347	220.2
Engro Foods	75,527	88.5%	66,872	127.7
Engro Polymer	10,806	56.2%	6,072	11.6
Engro Eximp	(1,069)	100.0%	(1,069)	(2.0)
Engro Powergen	8,565	100.0%	8,565	16.4
Engro Vopak	2,803	50.0%	1,401	2.7
Total	**227,753**		**197,188**	**376.5**

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	34.1	25.5	45.8
Average Volume (mn Shares)	3.9	2.8	3.6
High Price - PKR	228.7	228.7	228.7
Low Price - PKR	160.2	156.8	151.9
	Dec-13A	**Dec-14E**	**Dec-15F**
Shareholder Ratios			
Earning per Share - PKR	15.6	16.2	28.8
Book Value per Share - PKR	107.3	116.0	139.3
Dividend per Share - PKR	-	4.0	8.0
Dividend Payout Ratio (%)	-	24.7	27.8
Price Ratios			
Price to Earning (x)	14.2	13.7	7.7
Price to Book (x)	2.1	1.9	1.6
Dividend Yield (%)	-	1.8	3.6
Profitability Ratios			
Gross Margins (%)	26.1	24.2	29.5
EBIT Margins (%)	18.7	15.0	20.0
EBITDA Margins (%)	24.2	20.4	24.1
Net Margins (%)	5.3	5.3	8.9
Financial Leverage Ratios			
Debt to Equity (x)	1.7	1.2	0.8
Debt to Assets (x)	0.5	0.5	0.4
Return Ratios			
Interest Coverage Ratio (x)	4.3	2.5	4.9
Earning Yield (%)	7.1	7.3	13.0
Return on Assets (%)	14.6	14.5	22.6
Return on Equity (%)	4.0	4.4	9.2

Fertilizer

Engro Fertilizer Limited

Recommendation	BUY
Target Price	99.3
Current Price	78.1
Upside	27.2%
Bloomberg Code	EFERT PA
Free float	15%
Major Shareholders – Engro Corporation	

Key Investment Theme

- **PAT to grow at 4-year CAGR of 24%:** Margins improvement by 10 pps amid availability of concessionary gas from 2QCY15 along with Guddu gas for CY15 and long-term gas plan from CY16 onwards all bode well for the company. Company's PAT is expected to grow at a 4-year CAGR of 24%.
- **Strong cashflow generation:** We foresee strong cashflow generation amid concessionary gas flow and higher capacity utilization (90% for both the plants in CY16). Our analysis suggests, in CY14E, company's cash position will be strong enough to declare cash dividend of PKR 1.5/share as the company has retired 33% of its senior debt so far.
- **Long term gas plan:** Long term gas plan is expected to materialize in 2HCY16 in our view. However, the ratification of KPD gas is still pending. Further, we cannot rule out the possibility of extension of Guddu gas or allocation of Guddu gas to EFERT post CY15.
- **Becoming Sharia-compliant:** Owing to declining debt/leverage, EFERT expected to turn Sharia-compliant towards the end of CY15, which should attract Islamic Funds and other Sharia-based investments into company's stock, and even more as soon as it merits to be on the KMI30 Index.

Risks

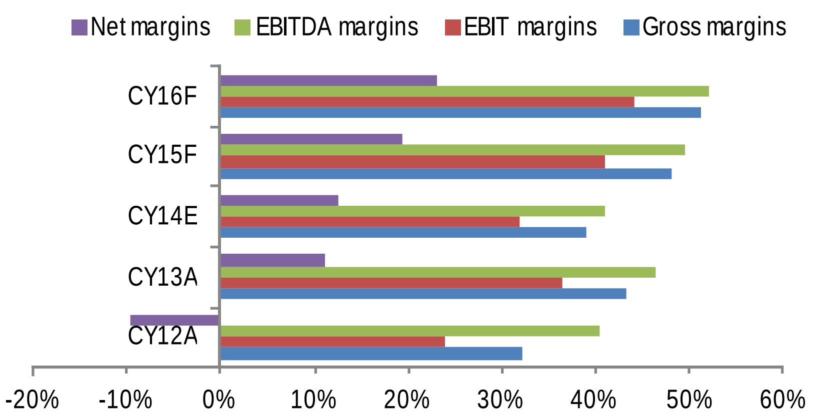
- Diversion of gas from long-term gas plan to Power sector.
- Unavailability of concessionary gas would reduce earnings by a significant 41% to PKR 5.27/share for CY15.
- Urea price reduction after availability of concessionary gas at USD 0.7/mmbtu. Every PKR 50/bag reduction in urea prices leads to annualized after tax impact of PKR 0.98/share on company's bottomline.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	4.2	5.6	9.5
Dividend per Share - PKR	-	1.5	3.0
Price to Earning (x)	18.5	13.9	8.2
Price to Book (x)	3.9	3.5	2.7
Dividend Yield (%)	-	1.9	3.8
Return on Assets (%)	5.4	6.9	12.2
Return on Equity (%)	26.7	26.9	37.3
EBITDA Margins (%)	36.5	29.3	41.0
Net Margins (%)	11.2	12.6	20.9

Source: Company Financials, AHL Research

Exhibit: EFERT Margins



Source: Company Financials, AHL Research

Fertilizer

Engro Fertilizer Limited

Target Price			99.3	**Relative Performance**	**3M**	**6M**	**12M**
Current Price			78.1	Total Return (%)	45.7	36.7	176.5
Upside			27.2%	Average Volume (mn Shares)	5.6	4.3	4.3
Market Capitalization (PKR mn)			102,936	High Price - PKR	78.1	78.1	78.1
Market Capitalization (USD mn)			1,029	Low Price - PKR	53.6	51.8	28.3
PKR mn	**Dec-13A**	**Dec-14E**	**Dec-15F**		**Dec-13A**	**Dec-14E**	**Dec-15F**
Income Statement				**Shareholder Ratios**			
Sales	49,544	58,996	60,020	Earning per Share - PKR	4.2	5.6	9.5
Gross Profit	21,435	21,351	28,986	Book Value per Share - PKR	19.9	22.5	29.3
Other Income	931	3,147	2,101	Dividend per Share - PKR	-	1.5	3.0
Finance Cost	9,077	6,856	5,932	Dividend Payout Ratio (%)	-	0.3	31.6
Post Tax Profit	5,554	7,411	12,528	**Price Ratios**			
Balance Sheet				Price to Earning (x)	18.5	13.9	8.2
Shareholder's Equity	25,819	29,184	37,962	Price to Book (x)	3.9	3.5	2.7
Long Term Loans	52,896	40,896	27,396	Dividend Yield (%)	-	1.9	3.8
Total Non-Current Liabilities	62,186	50,186	36,686	**Profitability Ratios**			
Trade Payables	18,012	10,756	7,758	Gross Margins (%)	43.3	36.2	48.3
Total Current Liabilities	24,019	26,299	24,482	EBIT Margins (%)	36.5	29.3	41.0
Total Equity & Liabilities	109,929	105,669	99,130	EBITDA Margins (%)	46.5	38.4	49.5
Non-Current Assets	79,563	80,138	77,157	Net Margins (%)	11.2	12.6	20.9
Current Assets	30,551	25,531	21,973	**Financial Leverage Ratios**			
Total Assets	109,929	105,669	99,130	Debt to Equity (x)	2.3	1.6	0.9
Cash Flow Statement				Debt to Assets (x)	0.5	0.4	0.3
From Operating Activities	21,827	4,740	15,649	**Return Ratios**			
From Investing Activities	(16,810)	12,119	(2,130)	Interest Coverage Ratio (x)	2.5	3.3	5.0
From Financing Activities	(2,822)	(4,470)	(16,069)	Earning Yield (%)	5.4	7.2	12.2
Net Change in Cash	2,195	12,389	(2,550)	Return on Assets (%)	5.4	6.9	12.2
Ending Cash	7,093	21,677	31,516	Return on Equity (%)	26.7	26.9	37.3

Fertilizer

Fatima Fertilizer Co Ltd.*

Recommendation*	NC
Target Price*	NC
Current Price	35.7
Upside	n.a
Bloomberg Code	FATIMA PA
Free float	15%
Major Shareholders – Arif Habib Corporation & Fatima Group	

Key investment theme

- **Product Portfolio:** Fatima Fertilizer Company Limited (FATIMA) is a fully integrated complex fertilizer unit with total production capacity of 1.58m tons. The complex comprises of a 500k tons urea plant, 420k tons CAN plant, 360k tons Nitro phosphate (NP) plant and a 300k tons NPK plant.
- **Subsidized feed stock:** In accordance with the Fertilizer Policy 2001, FATIMA is benefiting from subsidized gas rate of US$0.7/mmbtu, 79% lower than the industry rate. This subsidized feed stock gas rate is fixed for ten years. This enables the company to enjoy superior margins than its competitors.
- **Going Global:** FATIMA is planning to build a nitrogen plant in state Indiana US along with a global consortium to tap international markets. This plant may have a capacity to produce more than 1.5 mn tons of fertilizer. The company expects attractive return of 31% stake on invested amount of USD 150mn. The project is in its initial stage and the management is in co-ordination with the respective authorities to finalize the deal.
- **Secured gas supply:** Being on the Mari-gas network has been an added advantage for FATIMA, since companies on the said network faced annual gas curtailment of only ~8% -12%

Risks

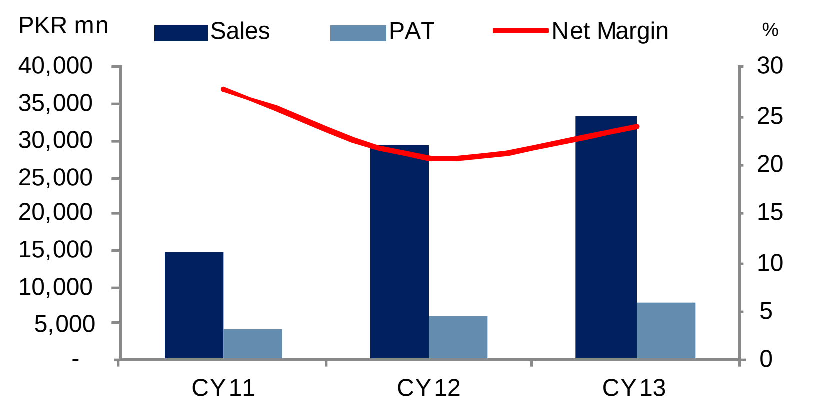
- Provision of the committed gas sale price (USc 70/mmbtu) to EFERT (expected in CY15) and removal of GIDC from feed stock could lead to fall in urea prices and thus affect earnings negatively.

Exhibit: Valuation Parameters

	Dec-12A	Dec-13A	9MCY14A
Earning per Share - PKR	2.86	3.82	3.06
Dividend per Share - PKR	2.0	2.5	-
Sales - PKR mn	29,519	33,496	25,860
Price to Earning (x)	9.23	7.48	8.57
Price to Book (x)	1.91	1.83	2.21
Dividend Yield (%)	7.6	8.8	-
Return on Assets (%)	8.0	10.1	10.7
Return on Equity (%)	21.1	24.5	26.3
EBITDA Margins (%)	55.4	53.8	56.06
Net Margins (%)	20.70	23.95	24.88

Source: Company Financials, AHL Research

Exhibit: FATIMA Increasing Profitability and Declining Financial Charges



Source: Company Financials, AHL Research

*Fatima Fertilizer Company Ltd is Arif Habib Group Company

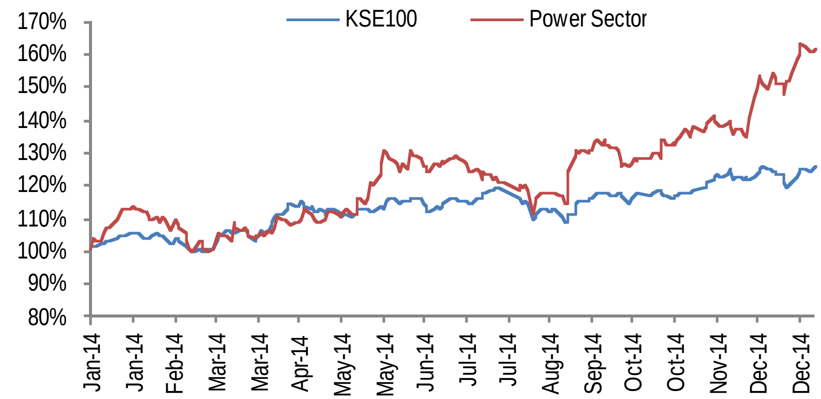
Electricity

Sector Performance

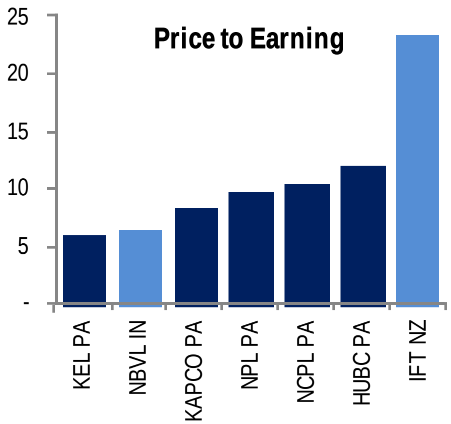
Exhibit: Sector's Key Statistics	CY14
No of Listed Companies	19
Average Daily Turnover (mn Shares)	1.57
Market Cap. (PKR mn)	285,672
Market Cap. (USD mn)	2,857
Return (%)	50.2%
PE (x)	10.4
PB (x)	2.4
ROE (%)	24.4%
ROA (%)	7.5%
Dividend Yield (%)	7.9%

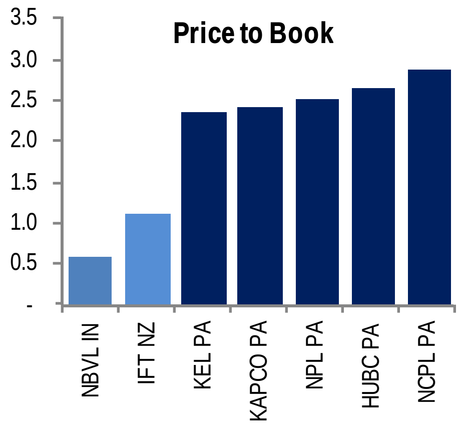
Source: Bloomberg, AHL Research

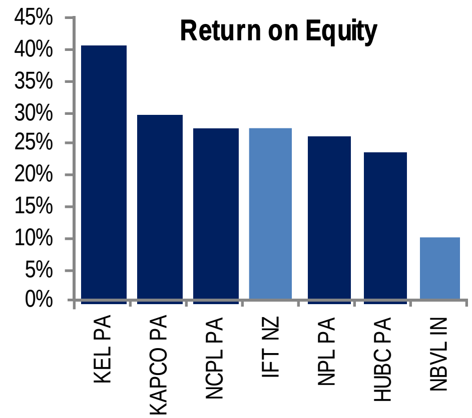
Exhibit: Power Sector Performance Relative to KSE100

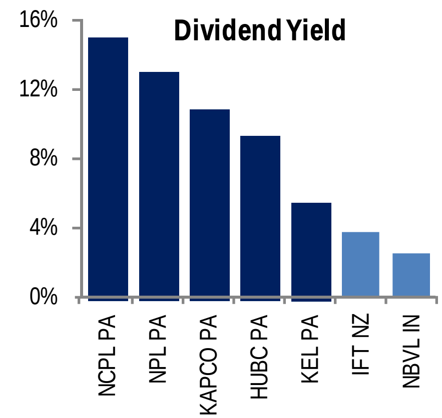


Source: KSE, AHL Research









Electricity

Electrifying yields…

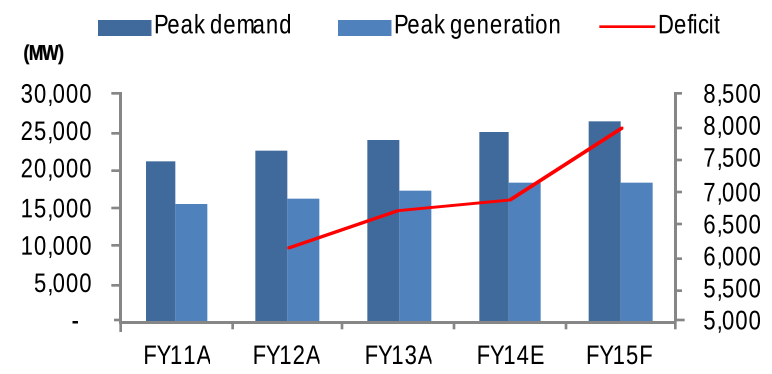
Key drivers

- **Falling oil prices:** A steep fall in global oil prices led to the decline in the notified electricity tariff by PKR 2.9/kWh. The government has so far partially passed on the impact of declining oil prices to end consumers.
- **Circular Debt:** Despite the heavy liquidity injection (PKR 480bn) to clear the overdue receivables in Jun-13, the circular debt has again reached around PKR 210bn in Dec-14. Though the situation is expected to remain concerning, the intensity of increase of the circular debt has considerably slowed (from over PKR 40bn/month during till Jun'14, to below PKR 15bn/month currently). The intensity of the circular debt could further be managed by reducing Power-related subsidies via raise in electricity tariffs.
- **Attractive dividend yields and a hedge against USD:** In the scenario of cooling down inflation and expected discount rate cut in the upcoming monetary policies, IPPs are offering much higher dividend yields (13% -15%) as compared to yields on government papers (10-yr PIB at 10.2%). Further, tariff for IPPs has built in immunity against PKR depreciation and inflation (both local and US). Therefore, depreciating PKR/USD parity should increase the ROE component in the medium to long term, though expected to stay opposite in the short term as domestic inflation slows with stable PKR.
- **Intensifying demand:** With peak demand still outpacing supply by 7,000MW, IPPs' share in the total power generation is steadily increasing amid declining trend witnessed in the Hydro-related generation sources.

Risks

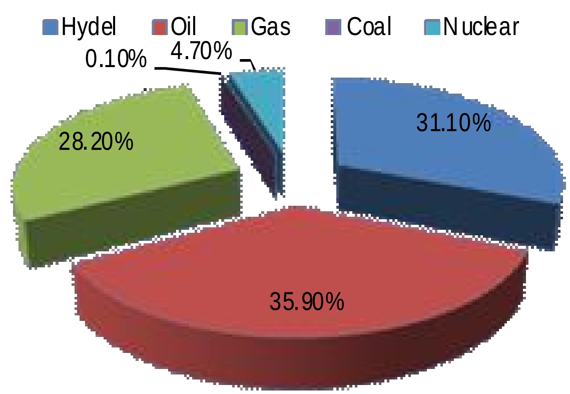
- Increasing intensity of the circular debt negatively affects IPPs' liquidity and cash flows, while appreciation in PKR/USD parity would affect earnings.

Exhibit: Country Electricity Demand, Supply and Deficit



Source: Energy Year Book, AHL Research

Exhibit: Electricity Generation by Source – 2013



Source: Energy Year Book, AHL Research

Electricity

Hub Power Company Limited

Recommendation	BUY
Target Price	88.7
Current Price	78.4
Upside (Capital Gain + Dividend Yield)	22.2%
Bloomberg Code	HUBC PA
Free float	75%
Major Shareholders – D.H Fertilizer Ltd & Fauji Foundation	

Key Investment Theme

- **Earnings to grow by 36% YoY:** Higher than expected O&M expenses amid increased repair cost of boilers led towards 33% YoY decline in FY14 to PKR 5.7/share. Going forward, we expect 36% YoY growth in earnings to PKR 7.22/share mainly on account of lower repair & maintenance cost and indexation adjustments.
- **Dividends:** We expect the company to pay a cash dividend of PKR 7/share in FY15, translating into a dividend yield of 9%.
- **One of the best defensive plays:** With bond like-pre established dividend stream, secured tariff structure against inflation, PKR devaluation and backed by sovereign guarantees, HUBC is one of the key defensive stocks in Pak equities.
- **Government backing on fuel supplies:** Hub Power Company operates under the 1994 Power Policy. One of the salient features of the policy is that, the fuel supply is guaranteed by the government unlike for newer power plants.
- **Coal conversion:** The company's coal conversion project is on the cards, however, we still await clarity of the plan, due to unavailability of the project details.

Risks

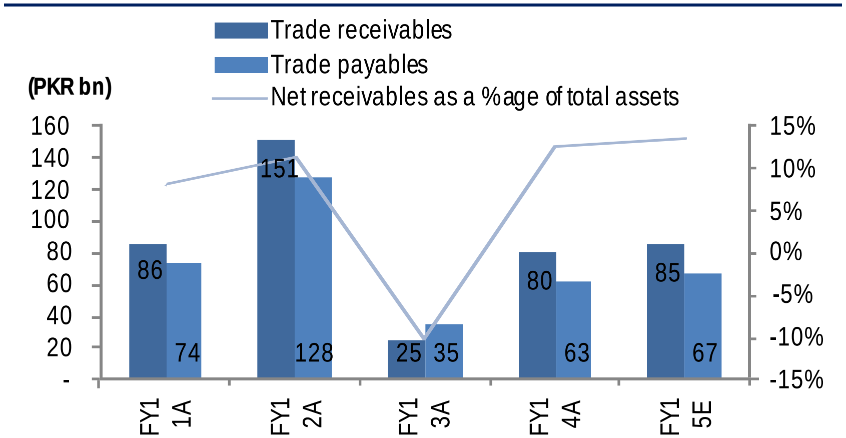
- Increasing intensity of the circular debt.
- Right shares issue or curtailment of dividend for financing of the coal project.
- Any sustained appreciation in PKR against the greenback.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	5.7	7.3	9.8
Dividend per Share - PKR	6.5	7.0	8.0
Price to Earning (x)	13.8	10.8	8.0
Price to Book (x)	2.9	2.9	2.6
Dividend Yield (%)	8.3	8.9	10.2
Return on Assets (%)	5.6	6.2	8.4
Return on Equity (%)	20.6	26.8	34.5
EBITDA Margins (%)	6.9	8.5	10.0
Net Margins (%)	4.0	5.1	6.9

Source: Company Financials, AHL Research

Exhibit: HUBC's Trade Receivables & Payables



Source: Company Financials, AHL Research

Electricity

Hub Power Company Limited

Target Price			88.7
Current Price			78.4
Upside (Capital Gain + Dividend Yield)			22.2%
Market Capitalization (PKR mn)			90,675
Market Capitalization (USD mn)			907
PKR mn	**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement			
Sales	163,821	166,092	165,200
Gross Profit	11,737	14,152	16,619
Other Income	83	38	34
Finance Cost	4,605	5,465	4,944
Post Tax Profit	6,553	8,402	11,398
Balance Sheet			
Shareholder's Equity	31,045	31,636	34,355
Long Term Loans	20,034	14,334	11,720
Total Non-Current Liabilities	20,034	14,334	11,735
Trade Payables	62,794	66,699	63,883
Total Current Liabilities	84,353	91,810	87,892
Total Equity & Liabilities	135,432	137,780	133,982
Non-Current Assets	47,592	45,082	42,687
Current Assets	87,840	92,698	91,295
Total Assets	135,432	137,780	133,982
Cash Flow Statement			
From Operating Activities	(6,157)	13,006	14,108
From Investing Activities	2,242	(196)	(322)
From Financing Activities	(10,748)	(13,880)	(11,818)
Net Change in Cash	(14,663)	(1,070)	1,968
Ending Cash	2,676	1,606	3,575

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	22.5	33.4	29.1
Average Volume (mn Shares)	1.7	1.4	1.6
High Price - PKR	79.9	79.9	79.9
Low Price - PKR	63.4	54.2	48.8
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	5.7	7.3	9.8
Book Value per Share - PKR	26.8	27.3	29.7
Dividend per Share - PKR	6.5	7.0	8.0
Dividend Payout Ratio (%)	114.8	96.4	81.2
Price Ratios			
Price to Earning (x)	13.8	10.8	8.0
Price to Book (x)	2.9	2.9	2.6
Dividend Yield (%)	8.3	8.9	10.2
Profitability Ratios			
Gross Margins (%)	7.2	8.5	10.1
EBIT Margins (%)	6.9	8.5	10.0
EBITDA Margins (%)	10.1	11.5	11.2
Net Margins (%)	4.0	5.1	6.9
Financial Leverage Ratios			
Debt to Equity (x)	1.3	1.2	1.0
Debt to Assets (x)	0.3	0.3	0.3
Return Ratios			
Interest Coverage Ratio (x)	0.6	0.5	0.4
Earning Yield (%)	7.2	9.3	12.6
Return on Assets (%)	5.6	6.2	8.4
Return on Equity (%)	20.6	26.8	34.5

Electricity

Karachi Electric Limited

Recommendation	BUY
Target Price	13.1
Current Price	9.2
Upside (Capital Gain + Dividend Yield)	47.6%
Bloomberg Code	KEL PA
Free float	10%
Major Shareholders – Govt Of Pakistan & KSE Power Ltd	

Key Investment Theme

- **Earnings growth:** KEL's earnings are expected to grow at a substantial 37% CAGR in next 4 years (FY14-17). The company posted EPS of PKR 0.46 in FY14, a jump of 31% YoY.
- **Transmission and distribution losses:** The company has managed to control and improve on its Transmission & Distribution (T&D) losses, trimming them down from 36% in FY09, to 25% in FY14. This was achieved through: 1) introduction of Ariel bundled (tampering proof) cables with primary focus on high-loss areas and 2) managing load shedding, with high-loss areas facing more blackouts.
- **Unbundling:** KEL has decided to un-bundle the company's current business divisions into separate entities for electricity generation and transmission & distribution. We believe, this could unlock company's potential value as under the current tariff regime, there is no inbuilt return for generation, only efficiency gains and reduction in T&D losses augment the profitability.
- Circular debt decline to improve liquidity: Like the entire energy chain, reduction in the circular debt followed by a significant decline in oil prices, KEL is also set to benefit in terms of better liquidity and decrease in short-term borrowings, as circular receivables improve gradually.

Risks

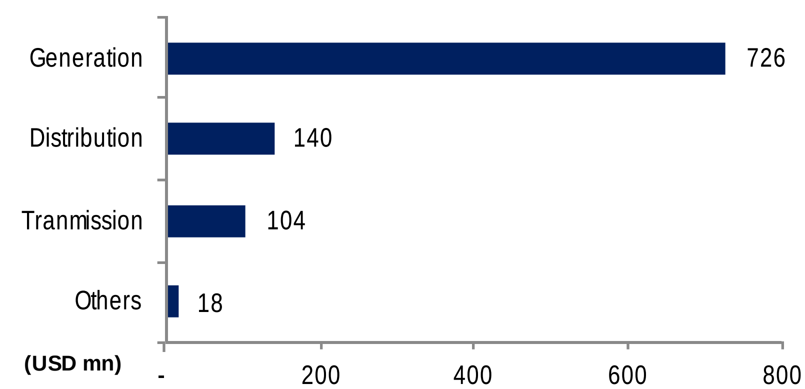
- Piling up of the circular receivables leads to heavy short-term borrowings (subsequently higher finance cost) for the company.
- For every 1% variation in gas proportion of the fuel mix, KEL's target price decreases by 1.8% with a negative bottomline impact of PKR 0.02/share (4% of FY15E earnings).

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	0.5	0.6	0.7
Dividend per Share - PKR	0.5	0.5	0.5
Price to Earning (x)	19.7	16.6	13.4
Price to Book (x)	3.6	2.9	2.4
Dividend Yield (%)	5.3	5.4	5.4
Return on Assets (%)	4.4	4.8	5.6
Return on Equity (%)	20.7	19.5	19.7
EBITDA Margins (%)	21.7	24.2	24.8
Net Margins (%)	6.6	7.5	8.9

Source: Company Financials, AHL Research

Exhibit: Capital Expenditure from FY09 till date



Source: Company Financials, AHL Research

Electricity

Karachi Electric Limited

Target Price	13.1
Current Price	9.2
Upside (Capital Gain + Dividend Yield)	47.6%
Market Capitalization (PKR mn)	254,612
Market Capitalization (USD mn)	2,546

Relative Performance	3M	6M	12M
Total Return (%)	19.4	8.6	63.2
Average Volume (mn Shares)	7.9	6.5	9.1
High Price - PKR	9.4	9.4	9.4
Low Price - PKR	7.2	6.3	5.2

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	194,708	203,094	211,547
Gross Profit	32,418	36,821	41,390
Other Income	6,163	6,131	5,795
Finance Cost	11,275	14,024	12,622
Post Tax Profit	12,887	15,321	18,862
Balance Sheet			
Shareholder's Equity	70,967	86,288	105,151
Long Term Loans	18,231	20,932	32,247
Total Non-Current Liabilities	60,114	61,782	72,135
Trade Payables	110,406	116,849	110,120
Total Current Liabilities	175,234	178,613	168,780
Total Equity & Liabilities	306,316	326,683	346,066
Non-Current Assets	173,144	180,783	184,507
Current Assets	133,171	145,900	161,559
Total Assets	306,316	326,683	346,066
Cash Flow Statement			
Free Cashflow to Firm	3,074	26,016	19,860
Free Cashflow to Equity	(3,437)	23,321	12,948
Opening Cash	790	653	23,974
Ending Cash	653	23,974	36,923

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	0.5	0.6	0.7
Book Value per Share - PKR	2.6	3.1	3.8
Dividend per Share - PKR	0.5	0.5	0.5
Dividend Payout Ratio (%)	103.4	89.8	72.9
Price Ratios			
Price to Earning (x)	19.7	16.6	13.4
Price to Book (x)	3.6	2.9	2.4
Dividend Yield (%)	5.3	5.4	5.4
Profitability Ratios			
Gross Margins (%)	16.6	18.1	19.6
EBIT Margins (%)	10.7	13.7	14.2
EBITDA Margins (%)	21.7	24.2	24.8
Net Margins (%)	6.6	7.5	8.9
Financial Leverage Ratios			
Debt to Equity (x)	1.0	0.8	0.7
Debt to Assets (x)	0.2	0.2	0.2
Return Ratios			
Interest Coverage Ratio (x)	1.8	2.0	2.4
Earning Yield (%)	5.1	6.0	7.4
Return on Assets (%)	4.4	4.8	5.6
Return on Equity (%)	20.7	19.5	19.7

Electricity

Kot Addu Power Company

Recommendation	BUY
Target Price	85.5
Current Price	78.9
Upside (Capital Gain + Dividend Yield)	19.2%
Bloomberg Code	KAPCO PA
Free float	52%
Major Shareholders – Nishat Power Ltd & Water & Power Development Authority	

Key Investment Theme

- **Earnings to grow 20% YoY**: We expect KAPCO to register a striking growth of 20% in its bottom-line, where lower maintenance cost coupled with higher indexation adjustments helping the company to achieve growth.
- **Coal projects:** The company has showed its intention for setting up 660 MW coal plant with Punjab Power Development Board. In this regard, the company has got approval and LoI from Government of Punjab, however, further details are still awaited.
- **Dividends:** KAPCO has always maintained a healthy payout, even more than earnings per share for some years. On this basis we are looking forward to a dividend of PKR 9/share in FY15, culminating into a dividend yield of 11%.
- **Gov't backing:** Like HUBC, KAPCO is also operating under the 1994 power policy, so, guaranteed fuel supply by the Government of Pakistan is the key factor distinguishing KAPCO and HUBC from other smaller IPP's operating in the country.

Risks

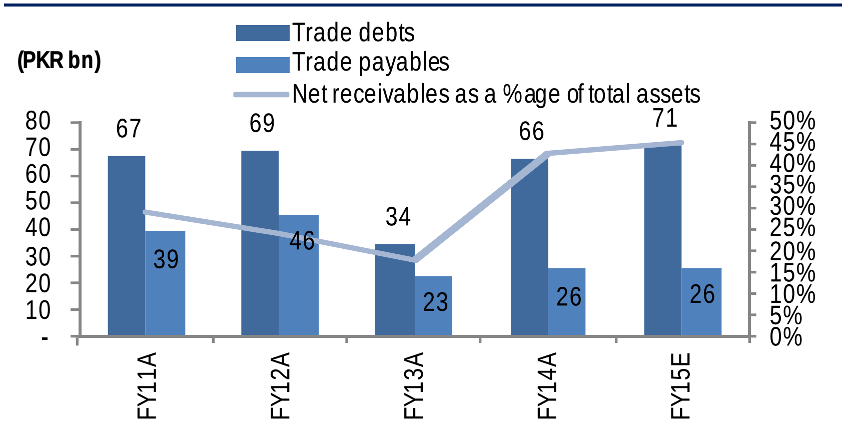
- Increasing intensity of circular debt.
- Gas curtailment particularly in winter leads to lower load factor and thus impacts adversely on company financials.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	8.8	10.5	11.8
Dividend per Share - PKR	6.5	8.5	10.7
Price to Earning (x)	9.0	7.5	6.7
Price to Book (x)	2.6	2.4	2.4
Dividend Yield (%)	8.2	10.8	13.6
Return on Assets (%)	9.8	9.5	10.3
Return on Equity (%)	29.5	33.4	35.6
EBITDA Margins (%)	15.7	19.0	19.3
Net Margins (%)	6.8	8.3	9.1

Source: Company Financials, AHL Research

Exhibit: NPL's Trade debts and Short term borrowings



Source: Company Financials, AHL Research

Electricity

Kot Addu Power Company

Target Price			85.5
Current Price			78.9
Upside (Capital Gain + Dividend Yield)			19.2%
Market Capitalization (PKR mn)			69,487
Market Capitalization (USD mn)			695
PKR mn	**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement			
Sales	113,206	111,975	114,282
Gross Profit	12,204	12,350	13,024
Other Income	4,213	7,409	7,387
Finance Cost	4,550	5,603	4,802
Post Tax Profit	7,729	9,256	10,343
Balance Sheet			
Shareholder's Equity	26,788	28,562	29,486
Long Term Loans	1,467	1,022	500
Total Non-Current Liabilities	5,137	4,881	4,547
Trade Payables	25,504	25,962	26,341
Total Current Liabilities	63,427	66,395	67,595
Total Equity & Liabilities	95,352	99,837	101,627
Non-Current Assets	15,994	14,615	13,177
Current Assets	79,358	85,223	88,450
Total Assets	95,352	99,837	101,627
Cash Flow Statement			
From Operating Activities	(19,346)	6,747	11,427
From Investing Activities	(627)	(778)	(782)
From Financing Activities	23,757	(5,228)	(8,932)
Net Change in Cash	3,785	740	1,712
Ending Cash	3,330	4,071	5,783

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	22.8	33.7	27.8
Average Volume (mn Shares)	0.6	0.5	0.5
High Price - PKR	79.6	79.6	79.6
Low Price - PKR	60.7	55.7	51.3
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	8.8	10.5	11.8
Book Value per Share - PKR	30.4	32.4	33.5
Dividend per Share - PKR	6.5	8.5	10.7
Dividend Payout Ratio (%)	74.0	80.8	91.1
Price Ratios			
Price to Earning (x)	9.0	7.5	6.7
Price to Book (x)	2.6	2.4	2.4
Dividend Yield (%)	8.2	10.8	13.6
Profitability Ratios			
Gross Margins (%)	10.8	11.0	11.4
EBIT Margins (%)	3.7	3.9	4.8
EBITDA Margins (%)	15.7	19.0	19.3
Net Margins (%)	6.8	8.3	9.1
Financial Leverage Ratios			
Debt to Equity (x)	1.5	1.5	1.4
Debt to Assets (x)	0.4	0.4	0.4
Return Ratios			
Interest Coverage Ratio (x)	3.5	3.4	4.1
Earning Yield (%)	11.1	13.3	14.9
Return on Assets (%)	9.8	9.5	10.3
Return on Equity (%)	29.5	33.4	35.6

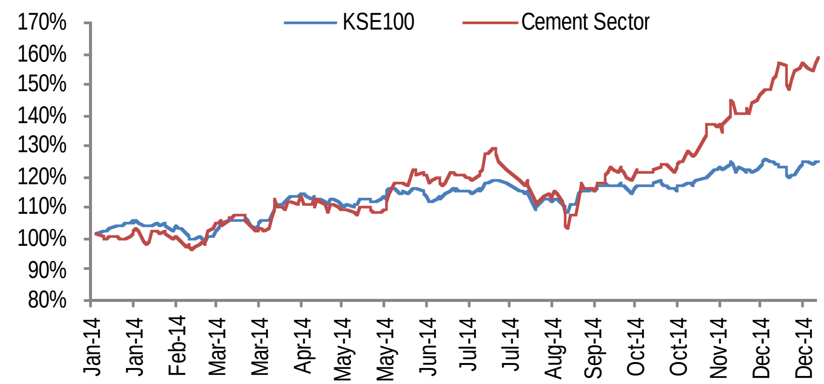
Construction and Materials

Sector Performance

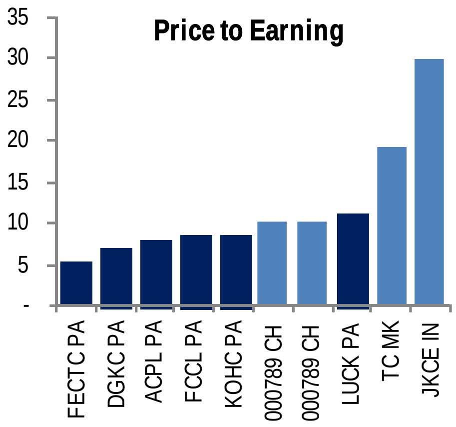
Exhibit: Sector's Key Statistics	**CY14**
No of Listed Companies	37
Average Daily Turnover (mn Shares)	2.36
Market Cap. (PKR mn)	502,961
Market Cap. (USD mn)	5,030
Return (%)	74.3%
PE (x)	12.1
PB (x)	2.5
ROE (%)	23.9%
ROA (%)	13.6%
Dividend Yield (%)	3.5%

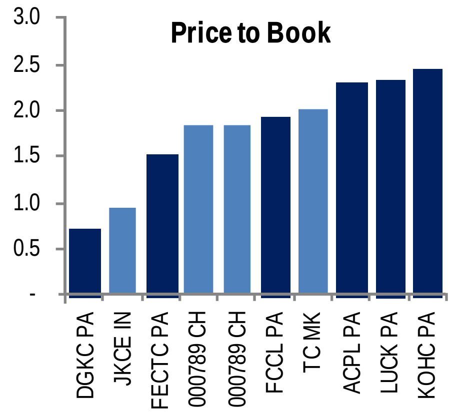
Source: Bloomberg, AHL Research

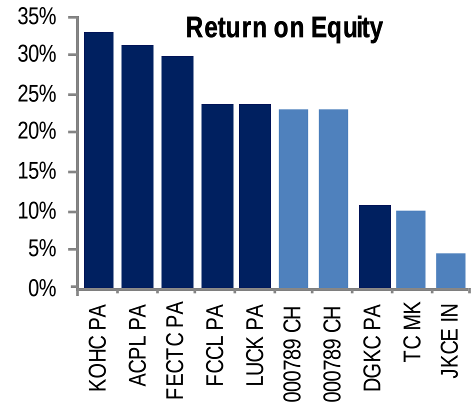
Exhibit: Cement Sector Performance Relative to KSE100

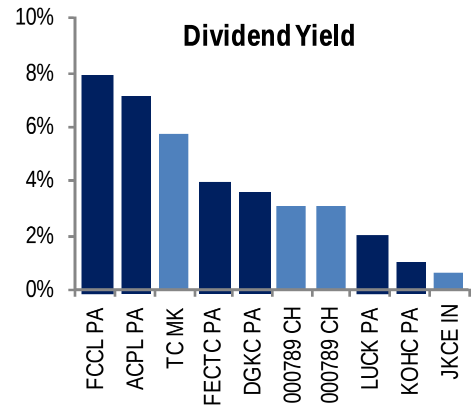


Source: KSE, AHL Research









Construction and Materials

Solid returns to continue

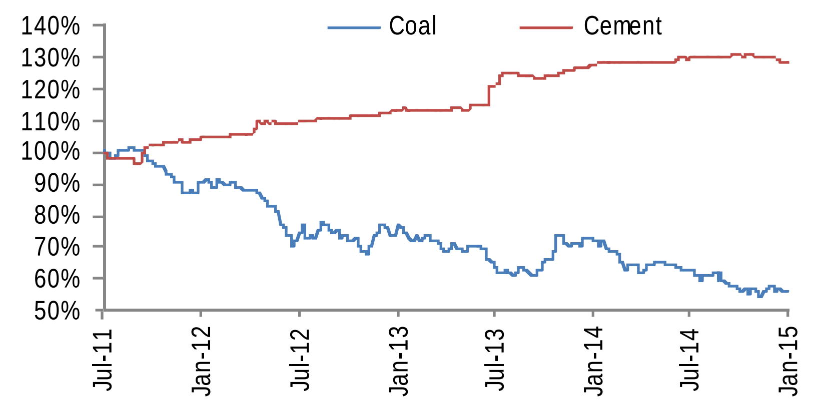
Key drivers

- **Strong pricing power intact:** Even after a massive 29% (PKR 100/bag) increase during last couple of years, with another spell of price increase in 3QFY14, average cement prices have jumped by 16% YoY to PKR 529/bag during FY15TD, and have remained stable since despite lowering coal prices.
- **Sluggish coal price continues along with recent reduction in electricity tariff:** Coal prices have massively dropped to around USD ~66/ton after hovering around USD 80/ton in Jan-14, which, along with recent reduction in electricity tariff by the government should lead to margin expansion for the cement players such as FCCL, KOHC, PIOC, FECTC and CHCC.
- **Strong PSDP to translate into higher demand:** The government announced historic high PSDP figure of PKR 1.1trn for FY15 – though curtailment of a possible PKR 258bn may come into play to meet fiscal deficit targets) – is expected to support the cement demand in the country (our forecast for dispatches growth in FY15 stands at a decent 6% YoY).

Risks

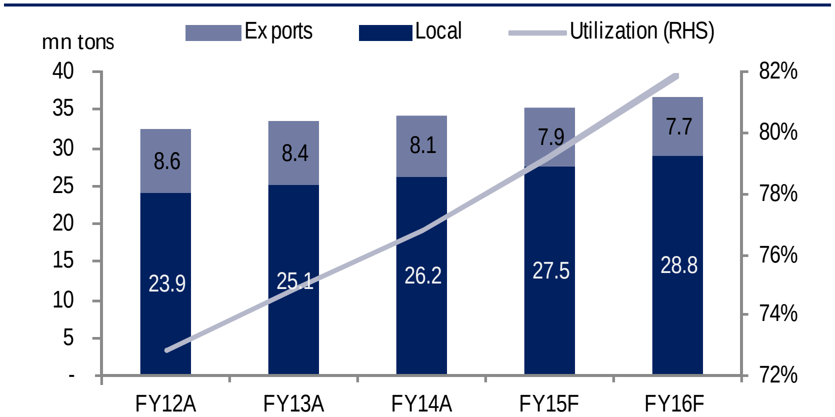
- Upward volatility in coal or downward pressure on cement prices (amid CCP intervention to reduce prices in line with decline in coal), expected hike in gas tariff by 20% (LUCK, DGKC and MLCF to be affected as their portion of captive power is run on gas).
- Anti dumping duty from South Africa may affect exports, but given the strong foothold in the continent of Pakistani manufactures, exports can be easily diverted to other lucrative African markets i.e. Mozambique, Tanzania.
- Any negative development from the hearing related to price/quota fixation.

Exhibit: Coal & Cement Prices Trend



Source: Company Financials, AHL Research

Exhibit: Cement Industry: Exports, Imports & Capacity Utilization



Source: Company Financials, AHL Research

Construction and Materials

D.G. Khan Cement

Recommendation	BUY
Target Price	149.4
Current Price	110.5
Upside	35.2%
Bloomberg Code	DGKC PA
Free float	55%
Major Shareholders – Nishat Group	

Key Investment Theme

- **Lower power tariff and coal prices along with stable cement prices to uplift margins:** DGKC meets around half of its power requirement through national grid, which benefits the company in terms of the recent reduction in power tariffs. This coupled with stable cement prices and sliding coal price has set the stage for margins improvement in FY15, expected at 38% , from 35% in FY14.
- **Higher dividend income from Associates to support bottomline;** We expect company's other income to grow at a 4-year CAGR of 4% to PKR 1.95bn in FY18, mainly on account of dividends from Nishat Mills Ltd (NML), Nishat Chunian Ltd (NCL), MCB Bank Ltd (MCB) and Adamjee Insurance (AICL).
- **WHRP to generate fuel savings:** The company has commissioned its 8.6MW Waste Heat Recovery Plant (having a positive bottomline impact of PKR 1.2/share) which is in addition to its plans of installing coal-fired power plants, reducing its reliance on the costlier national grid.
- **Profitability to jump at 4-year CAGR of 8%:** Amid strong cement pricing power coupled with cost saving measures, falling finance costs and improving dividends, we foresee profitability growth at a 3-year CAGR of 8% .

Risks

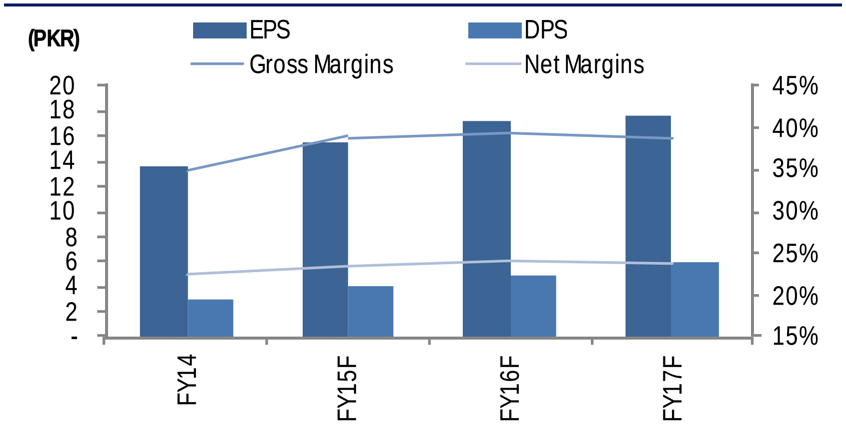
- Upward volatility in coal or downward pressure on cement prices (amid CCP intervention to reduce prices in line with decline in coal), expected hike in gas tariff by 20% as company's portion of captive power is run on gas).
- Every PKR 5/bag and USD 5/ton change in cement and coal prices, have bottomline impact of PKR 0.5/share and PKR 0.6/share, respectively.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	13.6	15.6	17.2
Dividend per Share - PKR	3.5	4.0	4.5
Price to Earning (x)	8.1	7.1	6.4
Price to Book (x)	0.8	0.7	0.7
Dividend Yield (%)	2.7	2.7	3.6
Return on Assets (%)	8.7	9.0	9.3
Return on Equity (%)	10.9	10.6	10.8
EBITDA Margins (%)	38.7	41.7	42.0
Net Margins (%)	22.5	23.5	24.1

Source: Company Financials, AHL Research

Exhibit: Improving Margins and Profitability



Source: Company Financials, AHL Research

Construction and Materials

D.G. Khan Cement

Target Price			149.4
Current Price			110.5
Upside			35.2%
Market Capitalization (PKR mn)			48,425
Market Capitalization (USD mn)			481

Relative Performance	3M	6M	12M
Total Return (%)	38.7	25.7	28.9
Average Volume (mn Shares)	5.7	4.5	4.3
High Price - PKR	112.7	112.6	112.7
Low Price - PKR	75.4	68.6	68.6

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	26,543	29,148	31,263
Gross Profit	9,258	11,343	12,313
Other Income	1,647	1,732	1,817
Finance Cost	609	496	412
Post Tax Profit	5,965	6,846	7,543
Balance Sheet			
Shareholder's Equity	61,517	67,048	72,838
Long Term Loans	1,321	670	-
Total Non-Current Liabilities	5,825	5,174	4,504
Trade Payables	2,476	2,795	2,998
Total Current Liabilities	5,941	6,675	6,762
Total Equity & Liabilities	73,282	78,896	84,104
Non-Current Assets	41,213	40,355	39,479
Current Assets	32,069	38,542	44,625
Total Assets	73,282	78,896	84,104
Cash Flow Statement			
From Operating Activities	9,203	6,153	7,272
From Investing Activities	(2,889)	(891)	(909)
From Financing Activities	(2,092)	(251)	(721)
Net Change in Cash	4,222	5,010	5,642
Ending Cash	1,309	4,281	9,923

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	13.6	15.6	17.2
Book Value per Share - PKR	140.4	153.0	166.3
Dividend per Share - PKR	3.5	4.0	4.5
Dividend Payout Ratio (%)	0.2	0.2	0.2
Price Ratios			
Price to Earning (x)	8.1	7.1	6.4
Price to Book (x)	0.8	0.7	0.7
Dividend Yield (%)	2.7	2.7	3.6
Profitability Ratios			
Gross Margins (%)	34.9	38.9	39.4
EBIT Margins (%)	31.9	35.7	36.3
EBITDA Margins (%)	38.7	41.7	42.0
Net Margins (%)	22.5	23.5	24.1
Financial Leverage Ratios			
Debt to Equity (x)	0.1	0.1	0.1
Debt to Assets (x)	0.1	0.1	0.0
Return Ratios			
Interest Coverage Ratio (x)	13.9	21.0	27.6
Earning Yield (%)	12.3	14.1	15.6
Return on Assets (%)	8.7	9.0	9.3
Return on Equity (%)	10.9	10.6	10.8

Construction and Materials

Attock Cement Pakistan Ltd.

Recommendation	BUY
Target Price	262.6
Current Price	195.2
Upside	34.5%
Bloomberg Code	ACPL PA
Free float	20%
Major Shareholders - Pharaon Invest. Group	

Key Investment Theme

- **Lower coal prices, stable cement prices and higher exports:** On the back of lowering int'l coal prices, intact cement prices (ACPL's product tis sold at a slight premium to other brands) and lower power tariff (national grid), we expect gross margins for FY15 to widen to 34.9%, compared to 29.7% a year back. Unlike the trend of other cement players, ACPL's exports sales have continued to surge by 27.4% YoY in 1HFY15.
- **Coal-fired power plant by FY18:** ACPL has recently announced its plans to construct a 40 MW coal-fired power plant (to come on-line by FY18) and sell surplus electricity (~10 MW) to K-Electric (KEL). Company's gross margins are estimated to substantially improve to ~41% from FY18 onwards, from the current 29.7%. Shifting to coal-fired power would result in a saving of PKR 5.7/kwh (National Grid: current PKR 12.5/kwh – Coal based power cost: PKR 7/kwh) for the company. Funding for the project (~PKR 6bn) will be done by a mixture of debt and equity (60:40)
- **Earnings to jump at 16% CAGR:** We expect ACPL's bottomline to jump at a 4-year CAGR of 16% to PKR 31.7/share in FY18, with 30% YoY growth materializing in FY15 alone!

Risks

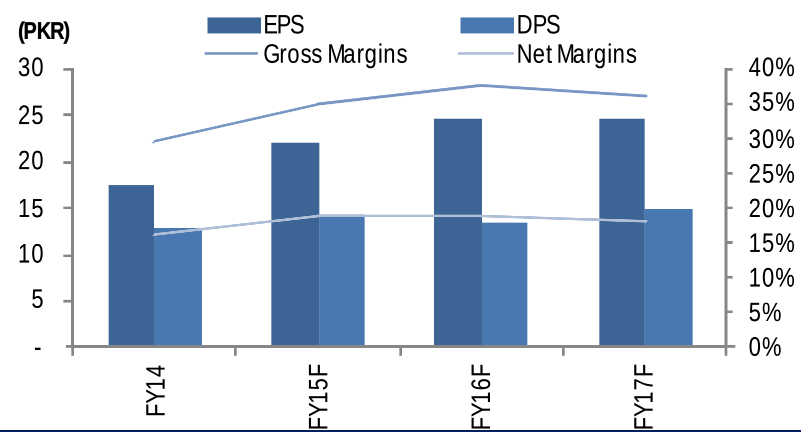
- Decline in cement prices; every PKR 5/bag change drags bottomline by PKR 0.58/share.
- Rise in coal price; Every USD 5/ton increase reduces EPS by PKR 0.8 and vice versa.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	17.6	22.8	25.3
Dividend per Share - PKR	13.0	14.8	13.9
Price to Earning (x)	11.1	8.6	7.7
Price to Book (x)	2.6	2.4	2.1
Dividend Yield (%)	6.7	7.6	7.1
Return on Assets (%)	17.8	21.6	19.8
Return on Equity (%)	24.7	29.3	29.0
EBITDA Margins (%)	24.4	30.7	33.8
Net Margins (%)	16.1	19.2	19.3

Source: Company Financials, AHL Research

Exhibit: Improving Margins and Profitability



Source: Company Financials, AHL Research

Construction and Materials

Attock Cement Pakistan Ltd.

Target Price			262.6
Current Price			195.2
Upside			34.5%
Market Capitalization (PKR mn)			22,351
Market Capitalization (USD mn)			222

Relative Performance	3M	6M	12M
Total Return (%)	10.3	23.8	36.8
Average Volume (mn Shares)	0.1	0.1	0.9
High Price - PKR	199.2	199.2	199.2
Low Price - PKR	171.0	146.2	117.3

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	12,547	13,615	15,012
Gross Profit	3,704	4,821	5,740
Other Income	270	461	513
Finance Cost	30	31	450
Post Tax Profit	2,014	2,611	2,900
Balance Sheet			
Shareholder's Equity	8,446	9,360	10,665
Long Term Loans	-	-	3,600
Total Non-Current Liabilities	1,256	1,004	4,604
Trade Payables	2,023	1,679	1,645
Total Current Liabilities	2,224	1,876	1,842
Total Equity & Liabilities	11,926	12,239	17,111
Non-Current Assets	6,206	6,087	8,915
Current Assets	5,720	6,152	8,195
Total Assets	11,926	12,239	17,111
Cash Flow Statement			
From Operating Activities	2,583	2,211	3,163
From Investing Activities	(1,162)	(297)	(3,316)
From Financing Activities	(1,343)	(1,713)	2,005
Net Change in Cash	78	201	1,852
Ending Cash	468	669	2,521

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	17.6	22.8	25.3
Book Value per Share - PKR	73.8	81.7	93.1
Dividend per Share - PKR	13.0	14.8	13.9
Dividend Payout Ratio (%)	73.9	65.0	55.0
Price Ratios			
Price to Earning (x)	11.1	8.6	7.7
Price to Book (x)	2.6	2.4	2.1
Dividend Yield (%)	6.7	7.6	7.1
Profitability Ratios			
Gross Margins (%)	29.5	35.4	38.2
EBIT Margins (%)	21.2	27.6	30.6
EBITDA Margins (%)	24.4	30.7	33.8
Net Margins (%)	16.1	19.2	19.3
Financial Leverage Ratios			
Debt to Equity (x)	0.0	0.0	0.3
Debt to Assets (x)	0.0	0.0	0.2
Return Ratios			
Interest Coverage Ratio (x)	89.4	122.6	10.2
Earning Yield (%)	9.0	11.7	13.0
Return on Assets (%)	17.8	21.6	19.8
Return on Equity (%)	24.7	29.3	29.0

Construction and Materials

Lucky Cement Limited

Recommendation	BUY
Target Price	561.2
Current Price	500.3
Upside	12.2%
Bloomberg Code	LUCK PA
Free float	40%
Major Shareholders – Yonus Brothers	

Key Investment Theme

- **Highest gross margins in the Industry:** Economies of scale allow LUCK to be the lowest cost producer (23% lower cost of sales than the industry average). We expect gross margins for the company in FY15 to widen to 46% compared to 43.4% a year back, on account of higher dispatches growth (3% YoY in FY15E) and expected drop in coal prices in FY15 (15% YoY).
- **Increased domestic share in the South to boost bottomline:** LUCK has recently refocused its sales mix in the southern market where it currently holds ~45% market share compared to 38% earlier.
- **Strategic investments an icing on the cake;** Strategic investments in ICI Pakistan (PKR 62/share or 11% contribution to valuations), Coal-based power plant of 660MW with commissioning expected by FY19 and DR Congo's operations (to come online by FY17) would further support the profitability of the company in the longer run. Iraq operations commenced in Apr'14 are expected to add PKR 1.8/share to the FY15's bottomline.
- **Earnings to jump at 11% CAGR:** We expect LUCK's bottomline to jump by a 4-year CAGR of 11%, to PKR 53.95/share in FY18, with 25% YoY growth materializing in FY15 alone.

Risks

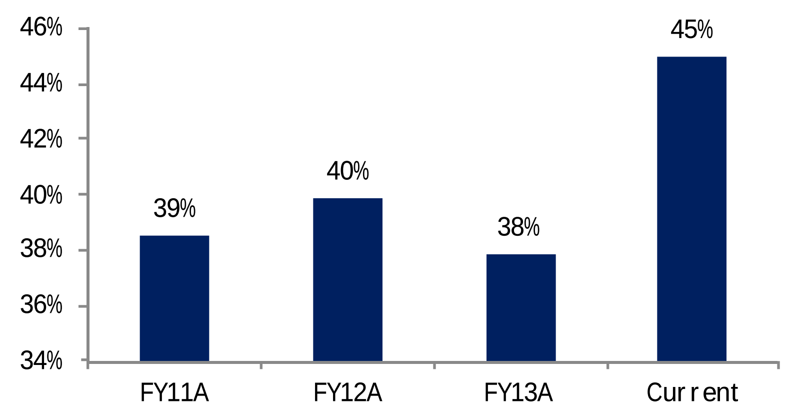
- Decline in cement prices; every PKR 5/bag change drags bottomline by PKR 0.9/share.
- Rise in coal price; Every USD 5/ton increase reduces EPS by PKR 1.1.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	35.1	43.8	47.3
Dividend per Share - PKR	9.0	10.0	11.0
Price to Earning (x)	14.3	11.4	10.6
Price to Book (x)	3.2	2.3	2.0
Dividend Yield (%)	1.8	2.0	2.2
Return on Assets (%)	20.6	20.4	17.9
Return on Equity (%)	25.0	23.9	20.4
EBITDA Margins (%)	38.4	41.3	41.5
Net Margins (%)	26.3	28.9	29.2

Source: Company Financials, AHL Research

Exhibit: Booming Share in Southern Domestic Market



Source: Company Financials, AHL Research

Construction and Materials

Lucky Cement Limited

Target Price			561.2
Current Price			500.3
Upside			12.2%
Market Capitalization (PKR mn)			161,778
Market Capitalization (USD mn)			1,607
PKR mn	**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement			
Sales	43,083	49,043	52,378
Gross Profit	18,690	22,999	24,151
Other Income	978	963	1,486
Finance Cost	34	33	35
Post Tax Profit	11,344	14,163	15,290
Balance Sheet			
Shareholder's Equity	49,792	68,952	81,009
Long Term Loans	-	-	-
Total Non-Current Liabilities	5,521	5,599	5,521
Trade Payables	4,096	4,365	4,662
Total Current Liabilities	4,484	4,664	4,922
Total Equity & Liabilities	59,798	79,214	91,452
Non-Current Assets	40,198	37,460	36,680
Current Assets	19,600	41,754	54,772
Total Assets	59,798	79,214	91,452
Cash Flow Statement			
From Operating Activities	13,495	23,014	16,665
From Investing Activities	(4,949)	934	(1,067)
From Financing Activities	(2,833)	(2,922)	(3,349)
Net Change in Cash	5,713	21,026	12,249
Ending Cash	8,519	29,545	41,794

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	24.6	21.9	66.8
Average Volume (mn Shares)	0.8	0.8	0.7
High Price - PKR	513.9	513.9	513.9
Low Price - PKR	390.3	322.9	290.2
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	35.1	43.8	47.3
Book Value per Share - PKR	154.0	213.2	250.5
Dividend per Share - PKR	9.0	10.0	11.0
Dividend Payout Ratio (%)	25.7	22.8	23.3
Price Ratios			
Price to Earning (x)	14.3	11.4	10.6
Price to Book (x)	3.2	2.3	2.0
Dividend Yield (%)	1.80	2.00	2.20
Profitability Ratios			
Gross Margins (%)	43.4	46.9	46.1
EBIT Margins (%)	33.6	37.6	38.0
EBITDA Margins (%)	38.4	41.3	41.5
Net Margins (%)	26.3	28.9	29.2
Financial Leverage Ratios			
Debt to Equity (x)	-	-	-
Debt to Assets (x)	-	-	-
Return Ratios			
Interest Coverage Ratio (x)	423.4	554.3	569.9
Earning Yield (%)	7.0	8.8	9.5
Return on Assets (%)	20.6	20.4	17.9
Return on Equity (%)	25.0	23.9	20.4

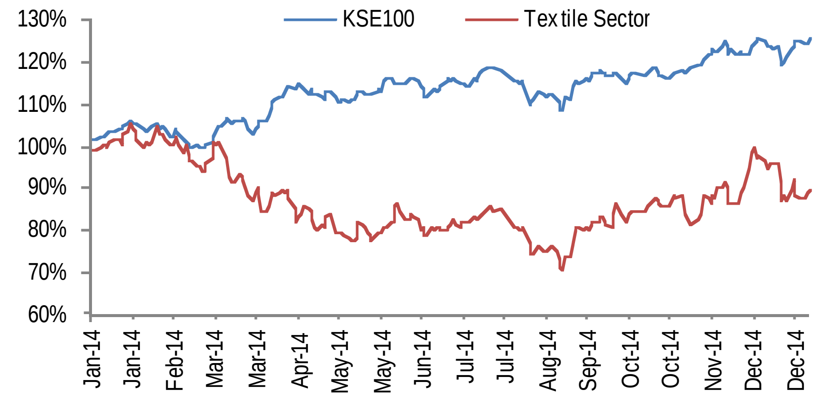
Personal Goods – Textiles

Sector performance

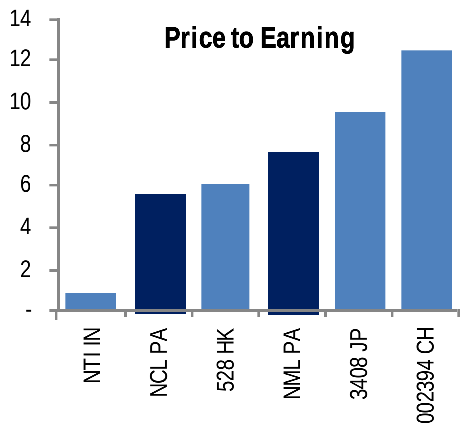
Exhibit: Sector's Key Statistics	**CY14**
No of Listed Companies	176
Average Daily Turnover (mn Shares)	0.44
Market Cap. (PKR mn)	393,409
Market Cap. (USD mn)	3,934
Return (%)	16.6%
PE (x)	30.5
PB (x)	5.0
ROE (%)	16.4%
ROA (%)	10.3%
Dividend Yield (%)	1.9%

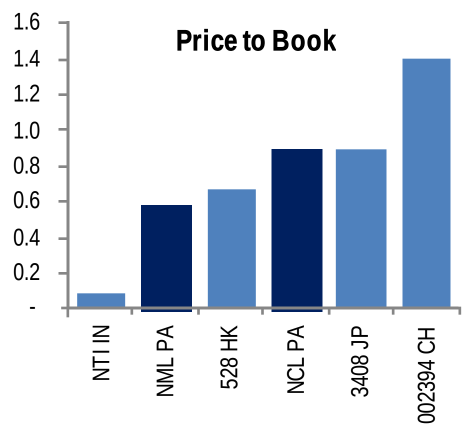
Source: Bloomberg, AHL Research

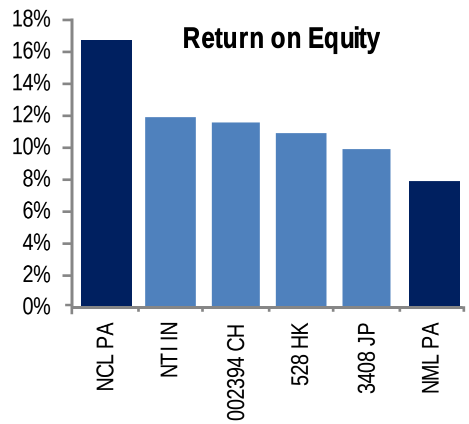
Exhibit: Textile Sector Performance Relative to KSE100

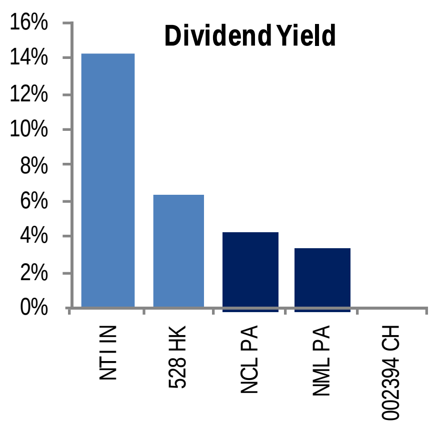


Source: KSE, AHL Research









Personal Goods – Textiles

Margins recovery for value-added in the making

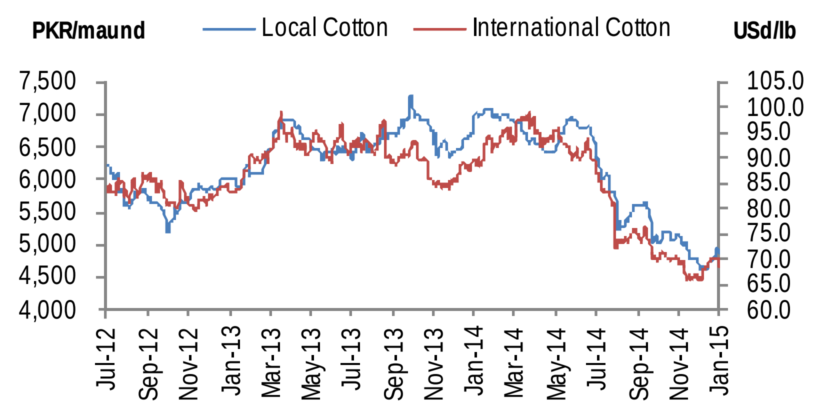
Key drivers

- **EU's GSP+ Status:** EU's grant for the GSP+ Status for Pakistan exports to the European Union came into effect from Jan'14 onwards (valid till further review in CY17). Under the scheme, Pakistan's textile products (~3,400 items) received a duty waiver (zero tariff) in 28 EU countries. Resultantly, we have witnessed Pakistan's exports to the EU crossing USD 5.7bn, up 16% (USD 910mn) in 9MCY14.
- **PKR/USD devaluation:** Textile sector is exposed to currency risks as exports (56% of total exports in FY14) are denominated mainly in USD. Depreciation in PKR/USD parity translates into exchange gains for the sector and vice versa.
- **Cotton prices at 4-year low:** Cotton prices have plummeted to a 4-year low touching as low as PKR 4,600/maund. This we believe will considerably uplift Textiles sector's value-added segment's margins.

Risks

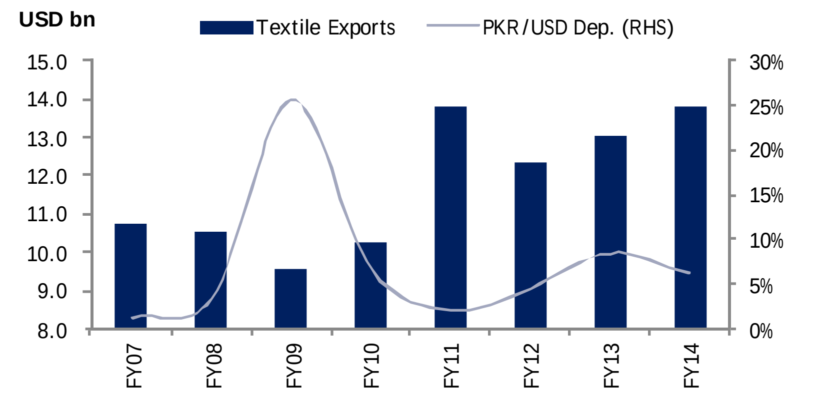
- Unanticipated surge in cotton prices (on account of weaker crop production due to low price incentive), and untoward PKR/USD and PKR/EURO parity appreciation alongside persistence of power/energy/gas issues.
- EU granted GSP+ Status may come under threat as moratorium on death penalty was recently lifted by government, though probability is low.
- Bleak cotton/yarn demand outlook from major export markets i.e. China.

Exhibit: International vs Local Cotton Prices



Source: Bloomberg, KCA, AHL Research

Exhibit: Textile Exports vs. PKR/USD Depreciation



Source: PBS, Bloomberg AHL Research

Personal Goods – Textiles

Nishat Mills Limited

Recommendation	BUY
Target Price	159.3
Current Price	121.0
Upside	31.7%
Bloomberg Code	NML PA
Free float	50%
Major Shareholders – Nishat Group	

Key Investment Theme

- **Penetration in EU markets:** As NML has a 2.5% market share in the country's textile exports to EU markets, EU's GSP+ Status has already started unlocking NML's value, as sales to the EU rose by a hefty 22.4% YoY in FY14 to PKR 14.3bn, with the bottomline expected to increase by a CAGR of 17% in the next 4 years.
- **Fuel and power saving:** Fulfilling most of its power requirements from captive sources, drop in Furnace Oil (FO) prices, coupled with recent power tariff cut will uplift gross margins and lower distributions costs (lower transportation).
- **Dividend income:** Dividends from investments in group companies accounted for ~70% of NML's bottomline in FY14. Due to stable payouts from the group companies going forward, we expect a CAGR of 9% in the next 4 years from other operating income.
- **Diversification of investments:** Future plans of increasing its stake in MCB Bank coupled with lucrative investments in coal-fired power and hospitality projects will help the bottomline in the form of healthy dividend income.

Risks

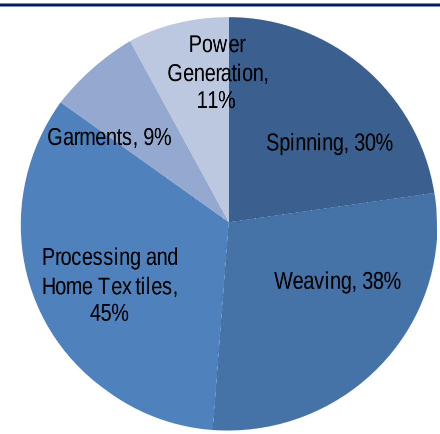
- Unexpected uptick in cotton prices, gas tariff hike along with PKR's appreciation poses a significant risk to margins.
- Portfolio value of NML is PKR 93.2/share or 59.3% of our Dec'15 Target Price (major downward fluctuations in market values of its listed holdings is a risk).

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	15.7	15.5	21.5
Dividend per Share - PKR	4.0	4.0	5.0
Price to Earning (x)	7.7	7.8	5.6
Price to Book (x)	0.6	0.6	0.5
Dividend Yield (%)	3.3	3.3	4.1
Return on Assets (%)	6.2	5.7	8.0
Return on Equity (%)	8.6	7.7	9.9
EBITDA Margins (%)	13.6	13.9	16.6
Net Margins (%)	10.1	10.1	12.9

Source: Company Financials, AHL Research

Exhibit: NML's Revenue Mix as of FY14



Source: Company Financials, AHL Research

Personal Goods – Textiles

Nishat Mills Limited

Target Price	159.3
Current Price	121.0
Upside	31.7%
Market Capitalization (PKR mn)	42,540
Market Capitalization (USD mn)	422

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	54,444	53,932	58,662
Gross Profit	7,864	8,492	10,378
Other Income	3,653	3,192	3,570
Finance Cost	1,610	1,698	1,341
Post Tax Profit	5,513	5,450	7,548
Balance Sheet			
Shareholder's Equity	68,589	73,360	79,502
Long Term Loans	6,431	5,241	3,750
Total Non-Current Liabilities	6,906	5,745	4,295
Trade Payables	4,429	4,213	4,500
Total Current Liabilities	21,553	13,912	12,883
Total Equity & Liabilities	97,049	93,017	96,680
Non-Current Assets	68,274	62,977	62,105
Current Assets	28,775	30,040	34,575
Total Assets	97,049	93,017	96,680
Cash Flow Statement			
From Operating Activities	2,846	2,369	2,998
From Investing Activities	(6,158)	(184)	(188)
From Financing Activities	8,134	(202)	(1,197)
Net Change in Cash	4,822	1,982	1,613
Ending Cash	2,802	3,191	8,119

Relative Performance	3M	6M	12M
Total Return (%)	1.7	8.1	-4.9
Average Volume (mn Shares)	1.8	1.6	2.2
High Price - PKR	136.5	136.5	136.5
Low Price - PKR	109.9	95.3	95.3

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	15.7	15.5	21.5
Book Value per Share - PKR	195.1	208.6	226.1
Dividend per Share - PKR	4.0	4.0	5.0
Dividend Payout Ratio (%)	0.3	0.3	0.2
Price Ratios			
Price to Earning (x)	7.7	7.8	5.6
Price to Book (x)	0.6	0.6	0.5
Dividend Yield (%)	3.3	3.3	4.1
Profitability Ratios			
Gross Margins (%)	14.4	15.7	17.7
EBIT Margins (%)	11.0	10.9	13.9
EBITDA Margins (%)	13.6	13.9	16.6
Net Margins (%)	10.1	10.1	12.9
Financial Leverage Ratios			
Debt to Equity (x)	0.3	0.2	0.1
Debt to Assets (x)	0.2	0.1	0.1
Return Ratios			
Interest Coverage Ratio (x)	3.7	3.5	6.1
Earning Yield (%)	13.0	12.8	17.7
Return on Assets (%)	6.2	5.7	8.0
Return on Equity (%)	8.6	7.7	9.9

Personal Goods – Textiles

Nishat Chunian Limited

Recommendation	BUY
Target Price	58.3
Current Price	45.4
Upside	28.4%
Bloomberg Code	NCL PA
Free float	50%
Major Shareholders – Nishat Group	

Key Investment Theme

- **Advent of GSP+ Status:** NCL has the potential to further increase its exposure to the EU markets (currently 18% of the company's topline), we have already witnessed NCL's EU exports increase by 15% to PKR 2.76bn in FY14.
- **Spindles capacity expansion:** NCL increased its spindles capacity by 40% with 22,000 spindles in Jan'14 through organic expansion coupled with acquisition of Taj Textile (38,000 spindles) which came online in Aug'14. This places the company in a better position to capitalize on possible rise in demand from domestic and int'l markets, going forward.
- **NCPL's healthy payouts supporting the bottomline:** Every PKR 1/share dividend from Nishat Chunian Power Limited (NCPL) – a 51% owned subsidiary – contributes PKR 0.85/share to the bottomline of NCL. We expect ~60% of the bottomline in FY15 to be supported by NCPL's dividend.

Risks

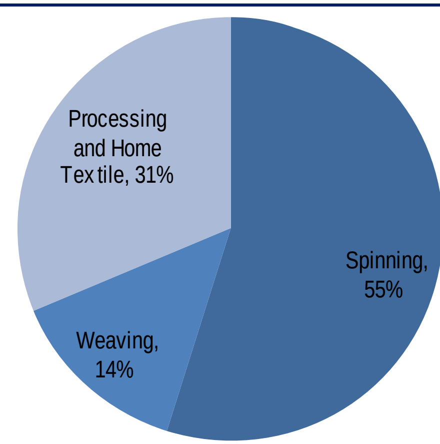
- Abrupt change in cotton prices and energy costs.
- With a debt to equity ratio of 1.8x as of 1QFY15, any upward revision in interest rates going forward (unlikely as CPI is slowing down in the short term) would swell finance cost, and vice versa.
- Slowdown in global yarn demand especially from major market, China, poses a threat to NCL's exports, as it is a major yarn export market.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	3.8	7.3	10.4
Dividend per Share - PKR	1.0	2.0	3.0
Price to Earning (x)	11.9	6.2	4.4
Price to Book (x)	1.1	0.9	0.8
Dividend Yield (%)	2.20	4.40	6.61
Return on Assets (%)	3.18	5.39	7.33
Return on Equity (%)	9.26	15.43	18.39
EBITDA Margins (%)	12.79	16.80	17.37
Net Margins (%)	3.34	6.06	8.04

Source: Company Financials, AHL Research

Exhibit: NCL's revenue mix as of FY14



Source: Company Financials, AHL Research

Personal Goods – Textiles

Nishat Chunian Limited

Target Price	58.3
Current Price	45.4
Upside	28.4%
Market Capitalization (PKR mn)	9,092
Market Capitalization (USD mn)	90

Relative Performance	3M	6M	12M
Total Return (%)	11.7	7.2	-24.6
Average Volume (mn Shares)	2.5	1.8	1.8
High Price - PKR	48.9	48.9	64.9
Low Price - PKR	39.7	36.3	36.3

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	22,800	24,224	25,933
Gross Profit	1,381	3,352	3,864
Other Income	1,815	1,154	1,126
Finance Cost	1,375	1,764	1,542
Post Tax Profit	761	1,468	2,086
Balance Sheet			
Shareholder's Equity	8,418	10,611	12,077
Long Term Loans	4,691	4,616	2,756
Total Non-Current Liabilities	4,722	4,647	2,787
Trade Payables	1,486	1,578	1,690
Total Current Liabilities	12,801	13,278	13,531
Total Equity & Liabilities	25,941	28,537	28,394
Non-Current Assets	11,392	8,692	8,391
Current Assets	14,549	19,845	20,003
Total Assets	25,941	28,537	28,394
Cash Flow Statement			
From Operating Activities	115	3,102	1,805
From Investing Activities	(2,288)	2,043	(266)
From Financing Activities	1,921	1,163	(2,334)
Net Change in Cash	(252)	6,308	(794)
Ending Cash	18	6,326	5,532

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	3.8	7.3	10.4
Book Value per Share - PKR	42.0	53.0	60.3
Dividend per Share - PKR	1.0	2.0	3.0
Dividend Payout Ratio (%)	26.3	27.3	28.8
Price Ratios			
Price to Earning (x)	11.9	6.2	4.4
Price to Book (x)	1.1	0.9	0.8
Dividend Yield (%)	2.2	4.4	6.6
Profitability Ratios			
Gross Margins (%)	6.1	13.8	14.9
EBIT Margins (%)	10.1	14.5	15.2
EBITDA Margins (%)	12.8	16.8	17.4
Net Margins (%)	3.3	6.1	8.0
Financial Leverage Ratios			
Debt to Equity (x)	1.9	1.5	1.2
Debt to Assets (x)	0.6	0.6	0.5
Return Ratios			
Interest Coverage Ratio (x)	1.7	2.0	2.6
Earning Yield (%)	8.4	16.1	22.9
Return on Assets (%)	3.2	5.4	7.3
Return on Equity (%)	9.3	15.4	18.4

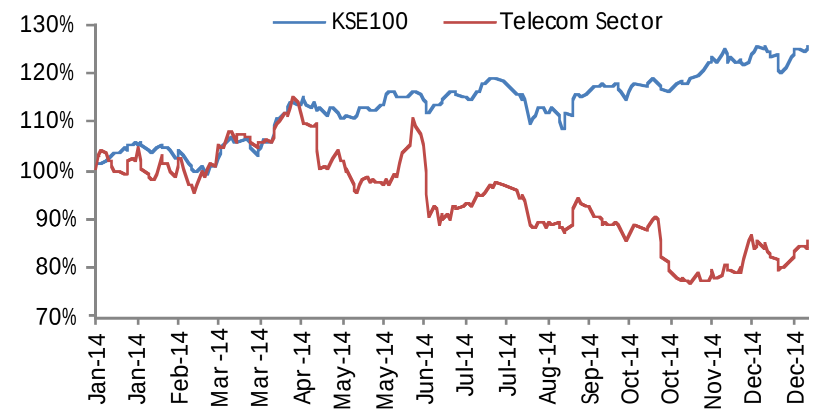
Fixed Line Telecom

Sector performance

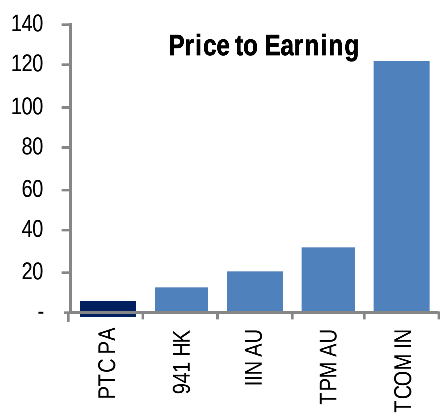
Exhibit: Sector's Key Statistics	CY14
No of Listed Companies	5
Average Daily Turnover (mn Shares)	3.75
Market Cap. (PKR mn)	90,133
Market Cap. (USD mn)	901
Return (%)	-13.5%
PE (x)	9.7
PB (x)	1.0
ROE (%)	12.6%
ROA (%)	6.5%
Dividend Yield (%)	8.3%

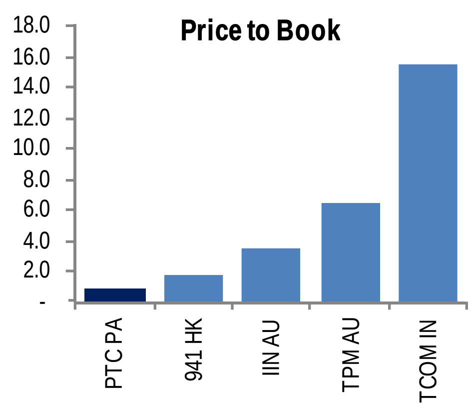
Source: Bloomberg, AHL Research

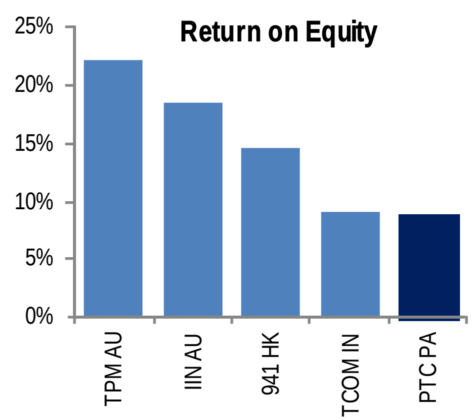
Exhibit: Telecom Sector Performance Relative to KSE100

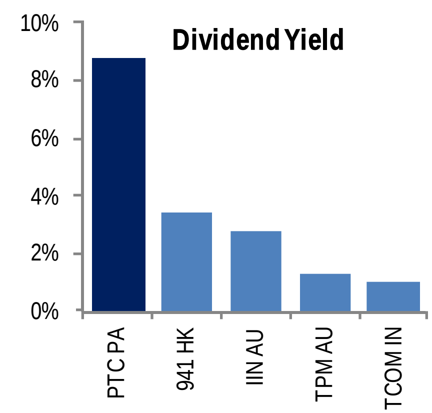


Source: KSE, AHL Research









Fixed Line Telecommunication

ARPU accretion post 3G/4G-LTE era

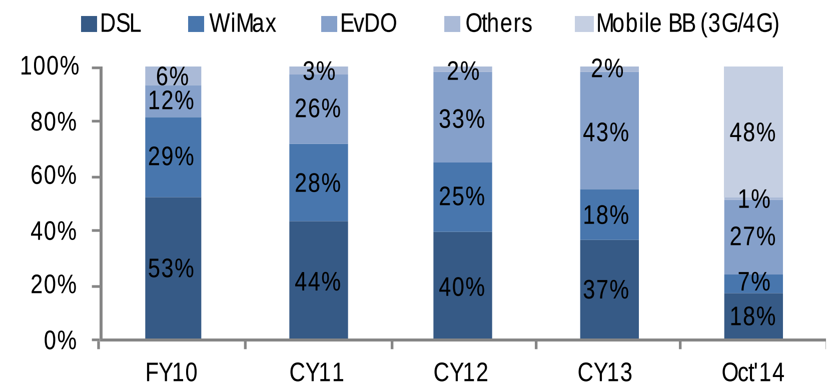
Key drivers

- **The 3rd and 4th Generation (3G/4G-LTE) spectrum:** With 3G/4G auction having taken place in Apr'14, Pakistan's Telecos going forward, we believe, will start to experience Average Revenue Per Users (APRUs) accretion as higher speeds spectrum will increase usage (in particular data usage) of cellular services and wireless broadband services. So far, an impressive 5mn users have subscribed to 3G services, with PTCL's Ufone having registered ~646k subscribers as of Oct'14.
- **Broadband subscribers segment:** This segment, we believe, will continue to show impressive growth trend in CY15 as witnessed in CY14 (from Jan'14-Oct'14, +1.4x growth was noted where EvDO segment registered a hefty +42% growth in subscribers). Mobile broadband users have jumped significantly by 4.5x in a span of just 4 months, to 3.77mn users in Oct'14 from 844k users in Jul'14, when 3G/4G spectrum was initially rolled out.

Risks

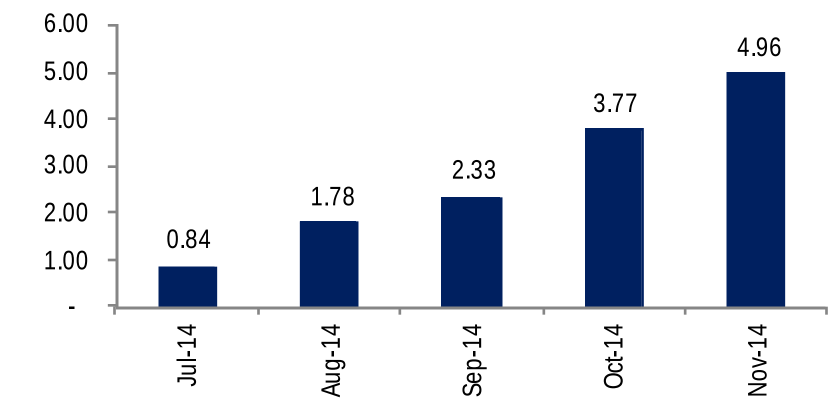
- Constant decline in documented LDI traffic (with grey traffic staying rampant) will continue to dent revenues for LDI operators, the ICH policy has also been withdrawn by the government, though its policy directive has been challenged in Sindh High Court (SHC) with an interim stay order granted.
- Possible under-allocation of funds from the Universal Service Fund to hamper ICT development in rural areas which is a vastly untapped market.

Exhibit: Broadband Market Share Technology Wise



Source: PTA, AHL Research

Exhibit: 3G Subscribers (mn) Since Launch



Source: PTA, AHL Research

Fixed Line Telecom

Pak Telecommunication Co.

Recommendation	**BUY**
Target Price	30.9
Current Price	23.0
Upside	34.2%
Bloomberg Code	PTC PA
Free float	16%
Major Shareholders - Govt. of Pakistan & Etisalat	

Key drivers

- **Broadband and Ufone revenues:** This segment continues its upward trend (+23% YoY) as subscribers, in particular EvDO segment (+68% YoY), is expected to continue with its growth trajectory. The addition of the 3G spectrum will also act as an impetus for increasing ARPUs of the broadband and cellular mobile subscriber segments (100% owned-subsidiary 'Ufone' with an estimated increase in the bottomline by an average 5.5% from CY15 onwards). Early indications of further growth in the broadband segment have been reflected in the recently launched 'Charji'- Evo Services offering speeds of up to 36MB.
- **Lower fuel and power costs:** Fuel and power cost account for ~6% (PKR 4.93bn) of the company's COGS. We expect the recent 30% decline in oil prices to bode well for the bottomline, which is expected to add 4.5% or PKR 0.13/share to the bottomline in CY15.
- **ICH a trigger again:** Gradual hunt-down on grey traffic through launch and deployment of detecting technology and equipment, and any ensuing recovery in international in-coming call minutes should bode well for the company.

Risks

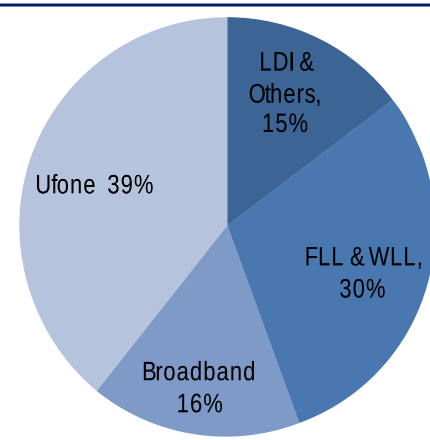
- Leveraged book and higher finance costs to continue (to fund 3G spectrum).
- Any higher than expected VSS payout with CY14 year-end results. This could impact year end payout
- ICH arrangement disarray to further prolong melting LDI traffic.

Exhibit: Valuation Parameters

	Dec-13A	Dec-14E	Dec-15F
Earning per Share - PKR	3.1	2.2	2.9
Dividend per Share - PKR	2.0	1.5	2.0
Price to Earning (x)	7.5	10.6	7.8
Price to Book (x)	1.0	1.0	0.9
Dividend Yield (%)	8.7	6.5	8.7
Return on Assets (%)	6.5	4.7	6.3
Return on Equity (%)	13.6	9.2	12.0
EBITDA Margins (%)	36.8	31.5	35.6
Net Margins (%)	12.0	8.4	11.3

Source: Company Financials, AHL Research

Exhibit: PTC's revenue mix as of CY13



Source: Company Financials, AHL Research

Fixed Line Telecom

Pak Telecommunication Company Limited

Target Price			30.9	**Relative Performance**	**3M**	**6M**	**12M**
Current Price			23.0	Total Return (%)	-1.2	-9.6	-19.0
Upside			34.2%	Average Volume (mn Shares)	3.4	2.9	3.8
Market Capitalization (PKR mn)			117,453	High Price - PKR	24.3	26.3	30.9
Market Capitalization (USD mn)			1,164	Low Price - PKR	20.7	20.7	20.7
PKR mn	**Dec-13A**	**Dec-14E**	**Dec-15F**		**Dec-13A**	**Dec-14E**	**Dec-15F**
Income Statement				**Shareholder Ratios**			
Sales	131,224	131,603	132,753	Earning per Share - PKR	3.1	2.2	2.9
Gross Profit	48,157	46,681	48,855	Book Value per Share - PKR	23.4	24.1	25.0
Other Income	4,538	4,766	4,968	Dividend per Share - PKR	2.0	1.5	2.0
Finance Cost	2,642	5,322	3,205	Dividend Payout Ratio (%)	0.6	0.7	0.7
Post Tax Profit	15,747	11,120	14,985	**Price Ratios**			
Balance Sheet				Price to Earning (x)	7.5	10.6	7.8
Shareholder's Equity	119,364	122,786	127,571	Price to Book (x)	1.0	1.0	0.9
Long Term Loans	-	-	-	Dividend Yield (%)	8.7	6.5	8.7
Total Non-Current Liabilities	61,539	61,844	62,038	**Profitability Ratios**			
Trade Payables	49,436	48,703	49,381	Gross Margins (%)	36.7	35.5	36.8
Total Current Liabilities	58,786	51,701	52,796	EBIT Margins (%)	18.3	13.0	17.0
Total Equity & Liabilities	239,688	236,332	242,405	EBITDA Margins (%)	36.8	31.5	35.6
Non-Current Assets	166,724	165,534	164,514	Net Margins (%)	12.0	8.4	11.3
Current Assets	72,965	70,798	77,891	**Financial Leverage Ratios**			
Total Assets	239,688	236,332	242,405	Debt to Equity (x)	-	-	-
Cash Flow Statement				Debt to Assets (x)	-	-	-
From Operating Activities	39,384	36,331	42,800	**Return Ratios**			
From Investing Activities	(20,363)	(24,265)	(26,130)	Interest Coverage Ratio (x)	9.1	3.2	7.0
From Financing Activities	(30,685)	(14,059)	(10,007)	Earning Yield (%)	13.4	9.5	12.8
Net Change in Cash	(11,665)	(1,993)	6,663	Return on Assets (%)	6.5	4.7	6.3
Ending Cash	5,224	3,231	9,895	Return on Equity (%)	13.6	9.2	12.0

Automobile & Parts

Government schemes underpin sector growth

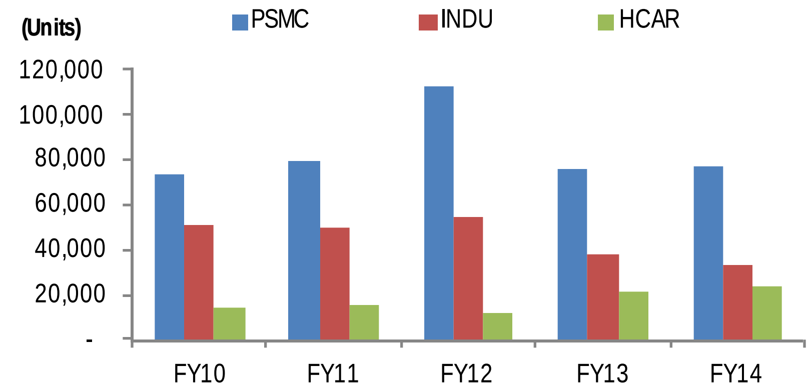
Key drivers

- **New schemes launched:** The Punjab taxi scheme (Apna Rozgar Scheme) entails providing 50,000 yellow cabs (50:50 of Bolan and Ravi Variants of PSMC) to unemployed people. This step has also aided, amongst other industry players, auto parts manufacturers such as GTYR, EXIDE and AGIL.
- **Weakening Yen (JPY):** JPY has lost ~13.6% in value against the USD since Dec-13TD due to the ongoing recession in Japan and BoJ's liquidity injections. Thus, JPY is set to depreciate further, reducing cost of imports for Pakistani Automobile manufacturers, and potential margin expansion.
- **Reduction in steel prices:** With falling steel prices (down 14.2% since Dec-13TD) due to reduced demand from China, costs of production for the Auto sector have decreased, with the trend poised to continue in coming periods.
- **Tax incentives for Agriculture sector:** In line with providing relief to the impoverished agricultural community, sales tax on Tractors was slashed from 16% to 10% (causing tractor sales to jump 44.4% already during 5MFY14).
- **Auto Industrial Development Policy (AIDP II):** It includes CKD duty reduction and unchanged life of imported used cars (currently at 3 years).

Risks

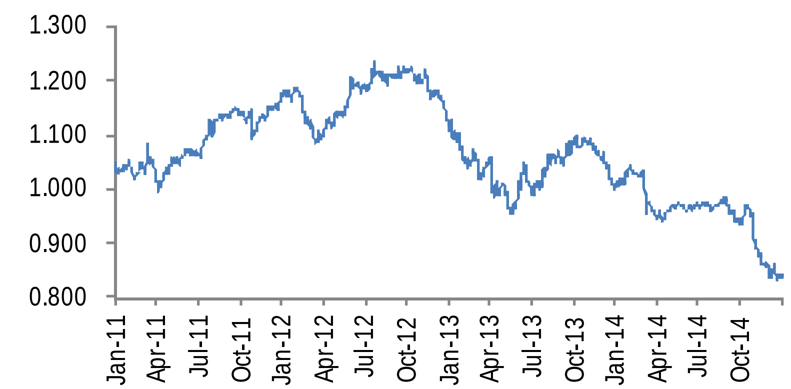
- JPY/PKR appreciation, decrease in age limit of imported cars and failure or any delay in launching schemes such as the Punjab Taxi Scheme etc.
- Any significant incentives provided on imported cars by the government.

Exhibit: Company Wise Sales (Passenger Cars)



Source: PAMA, AHL Research

Exhibit: PKR to JPY Parity



Source: Bloomberg, AHL Research

Automobile & Parts

Indus Motor Company

Recommendation	BUY
Target Price	1,028.2
Current Price	880.3
Upside	16.8%
Bloomberg Code	INDU PA
Free float	25%
Major Shareholders - Toyota Motor Corp	

Key Investment Theme

- **Volumetric Growth:** Spurred by the Corolla brand, the company has posted fat sales growth, with 42.4% more cars sold during 5MFY15 YoY. Corolla is expected to spearhead INDU sales in forthcoming period, with ~40% growth expected during FY15 for Corolla variants (~46,000 unit sales projected).
- **AIDP-II policy:** The new Auto Industry Development Policy II (AIDP II) is expected to be beneficial for the sector, with expected reduction duties on Completely Knocked Down units (CKDs) from 32.5% to 25% to promote localization policy of the government.
- **Dwindling Yen:** With the recession in the Japanese economy, the Yen has taken a massive hit, depreciating by 14% against the PKR since Jun-14. Due to the falling Yen, costs of inputs for the company have decreased, resulting in higher margins / increased sales ahead.
- **Possible new variant launches:** As per media sources, INDU is to launch Toyota's Vios (1300cc) in a head-to-head competition with HCAR's Honda City, and Yaris to bring it in competition with PSMC's Swift.

Risks

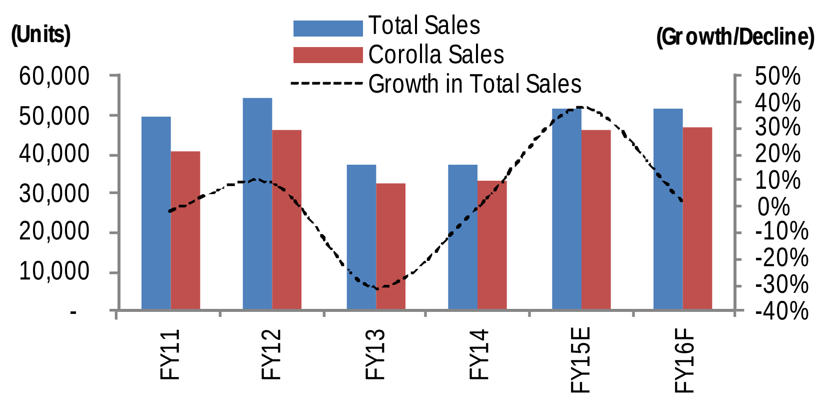
- A 5% (-)appreciation/(+)depreciation in Yen against the PKR will impact our estimated earnings downwards/upwards by -/+11.5%.
- Any production bottlenecks / capacity constraints can cause delays and affect company valuations / earnings estimates.
- Any significant incentives provided on imported cars by the government.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	49.3	91.2	92.7
Dividend per Share - PKR	29.5	50.0	50.0
Price to Earning (x)	17.9	9.7	9.5
Price to Book (x)	3.5	3.0	2.6
Dividend Yield (%)	3.4	5.7	5.7
Return on Assets (%)	15.1	25.0	22.1
Return on Equity (%)	20.6	33.3	29.4
EBITDA Margins (%)	10.4	14.9	14.8
Net Margins (%)	6.8	8.5	8.4

Source: Company Financials, AHL Research

Exhibit: Sales Trend and Forecast



Source: PAMA, Company Financials, AHL Research

Automobile & Parts

Indus Motor Company

Target Price			1,028.2
Current Price			880.3
Upside			16.8%
Market Capitalization (PKR mn)			69,193
Market Capitalization (USD mn)			687

Relative Performance	3M	6M	12M
Total Return (%)	19.6	63.7	164.4
Average Volume (mn Shares)	0.1	0.1	0.03
High Price - PKR	934.3	934.3	934.3
Low Price - PKR	701.2	505.1	314.5

PKR mn	Jun-14A	Jun-15E	Jun-16F
Income Statement			
Sales	57,064	84,320	86,301
Gross Profit	5,794	11,939	11,837
Other Income	1,113	1,362	1,620
Finance Cost	38	42	40
Post Tax Profit	3,873	7,166	7,288
Balance Sheet			
Shareholder's Equity	19,916	23,151	26,509
Long Term Loans	-	-	-
Total Non-Current Liabilities	219	219	219
Trade Payables	4,253	6,183	6,361
Total Current Liabilities	5,976	7,754	7,968
Total Equity & Liabilities	26,111	31,124	34,697
Non-Current Assets	6,072	4,950	4,379
Current Assets	20,038	26,174	30,317
Total Assets	26,111	31,124	34,697
Cash Flow Statement			
From Operating Activities	5,286	7,568	9,215
From Investing Activities	(4,084)	(707)	(1,429)
From Financing Activities	(2,100)	(3,930)	(3,930)
Net Change in Cash	2,662	2,931	3,856
Ending Cash	6,857	9,789	13,644

	Jun-14A	Jun-15E	Jun-16F
Shareholder Ratios			
Earning per Share - PKR	49.3	91.2	92.7
Book Value per Share - PKR	253.4	294.5	337.3
Dividend per Share - PKR	29.5	50.0	50.0
Dividend Payout Ratio (%)	59.9	54.8	53.9
Price Ratios			
Price to Earning (x)	17.9	9.7	9.5
Price to Book (x)	3.5	3.0	2.6
Dividend Yield (%)	3.4	5.7	5.7
Profitability Ratios			
Gross Margins (%)	10.2	14.2	13.7
EBIT Margins (%)	8.9	12.7	12.5
EBITDA Margins (%)	10.4	14.9	14.8
Net Margins (%)	6.8	8.5	8.4
Financial Leverage Ratios			
Debt to Equity (x)	-	-	-
Debt to Assets (x)	-	-	-
Return Ratios			
Interest Coverage Ratio (x)	132.1	254.4	268.6
Earning Yield (%)	5.6	10.4	10.5
Return on Assets (%)	15.1	25.0	22.1
Return on Equity (%)	20.6	33.3	29.4

Industrial Transportation

Pak National Shipping Corp.

Recommendation	BUY
Target Price	203.3
Current Price	160.4
Upside	26.8%
Bloomberg Code	PNSC PA
Free float	8.7%
Major Shareholders - Govt of Pakistan & Employees Trust	

Key Investment Theme

- **Falling chartering costs:** The national flag carrier, PNSC, charters ships that their existing tonnage cannot carry, thereby deteriorating profits. With the new acquisition during CY14, PNSC's oil fleet increased by ~33% and should reduce the chartered portion of total cargo, inflate gross margins by 4%-5% and add ~PKR 8-9/share to the bottomline annually during FY16-18.
- **Shipping fuel:** Falling crude oil prices resulted in shipping fuel prices falling by ~45% in 1HFY15. Company's gross margins should increase by ~50/75bps during FY16/18 for every USD 5/bbl drop in crude prices.
- **Not the end of the story:** The company announced a plan to purchase two oil tankers. With MT Shalamar already inducted into the fleet, there is a strong possibility of another acquisition in the rest of FY15.

Risks

- A USD 5/bbl increase / decrease in oil prices has the ability to decrease/increase bottomline by ~PKR 0.5-0.75/share.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	16.3	17.7	26.1
Dividend per Share - PKR	1.5	1.6	2.4
Price to Earning (x)	9.9	9.0	6.2
Price to Book (x)	0.9	0.8	0.7
Dividend Yield (%)	0.9	1.0	1.5
Return on Assets (%)	6.8	6.9	9.4
Return on Equity (%)	9.7	9.6	12.8
EBITDA Margins (%)	25.6	25.9	30.7
Net Margins (%)	13.7	13.7	19.0

Source: Company Financials, AHL Research

Exhibit: Lowering Chartering Capacity

Cargo Capacity - Liquid (mn tons)	Jun-14A	Jun-15E	Jun-16F
Cargo Lifted	15.4	16.1	16.4
Own Fleet Capacity (assumed)	6.0	7.0	8.0
Chartering Requirement (assumed)	9.4	9.1	8.4

Source: Company Financials, AHL Research

Industrial Transportation

Pak National Shipping Corporation

Target Price				203.3
Current Price				160.4
Upside				26.8%
Market Capitalization (PKR mn)				21,176
Market Capitalization (USD mn)				212
PKR mn		**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement				
Sales		15,727	17,139	18,084
Gross Profit		3,381	3,963	5,245
Other Income		689	264	333
Finance Cost		549	786	611
Post Tax Profit		2,149	2,258	3,353
Balance Sheet				
Shareholder's Equity		23,238	25,288	28,332
Long Term Loans		4,569	5,433	3,660
Total Non-Current Liabilities		5,186	6,051	4,277
Total Current Liabilities		3,959	4,201	4,757
Others Current Liabilities		2,642	2,828	2,984
Total Equity & Liabilities		32,384	35,540	37,366
Non-Current Assets		23,793	26,074	25,824
Current Assets		8,591	9,466	11,542
Total Assets		32,384	35,540	37,366
Cash Flow Statement				
From Operating Activities		2,215	3,090	4,346
From Investing Activities		(87)	(3,005)	(876)
From Financing Activities		(1,452)	713	(1,682)
Net Change in Cash		676	798	1,788
Ending Cash		2,464	2,650	4,439

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	96.9	125.5	90.6
Average Volume (mn Shares)	0.4	0.3	0.2
High Price - PKR	160.4	160.4	160.4
Low Price - PKR	80.1	57.9	57.9
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	16.3	17.1	25.4
Book Value per Share - PKR	176.0	191.5	214.5
Dividend per Share - PKR	1.5	1.6	2.3
Dividend Payout Ratio (%)	9.2	9.4	9.1
Price Ratios			
Price to Earning (x)	9.9	9.4	6.3
Price to Book (x)	0.9	0.8	0.7
Dividend Yield (%)	0.9	1.0	1.4
Profitability Ratios			
Gross Margins (%)	21.5	23.1	29.0
EBIT Margins (%)	18.8	19.4	24.0
EBITDA Margins (%)	25.6	25.3	30.2
Net Margins (%)	13.7	13.2	18.5
Financial Leverage Ratios			
Debt to Equity (x)	0.25	0.27	0.19
Debt to Assets (x)	0.18	0.19	0.15
Return Ratios			
Interest Coverage Ratio (x)	5.4	4.2	7.1
Earning Yield (%)	10.15	10.66	15.83
Return on Assets (%)	6.8	6.6	9.2
Return on Equity (%)	9.7	9.3	12.5

Health Care

Shifa International Hospital

Recommendation	BUY
Target Price	287.3
Current Price	218.7
Upside	31.4%
Bloomberg Code	SHFA PA
Free float	30.0%

Major Shareholders - Directors 19.7%, Tameer-e-Millat Foundation 15.2%

Key Investment Theme

- **Expansion in in-patients revenue:** SHFA has the prestigious status of performing 100+ liver transplants during 2014, becoming the only hospital in Pakistan to do so. With installation of 14 new operating theatres, we expect revenues from in-patients to depict a 4-year CAGR of 17.6% , as compared to average growth of 27.4% during FY10-14 period.
- **Healthy growth in Pharmacy business:** As per industry sources, the hospital is planning to franchise its pharmacies to gain a presence in other areas of Pakistan. We expect pharmacy revenues to grow at a 15.0% 4-year CAGR, as compared to average growth rate of 29.1% during FY10-14.
- **Attractive multiples:** Being the only listed hospital in capital markets, a regional analysis reveals that SHFA is trading at a discount of 55% to regional average PE of 35.6x, while providing healthier returns with ROE and ROA of 25.0% (regional average: 15.6%) and 9.2% (regional average: 7.9%), respectively.

Risks

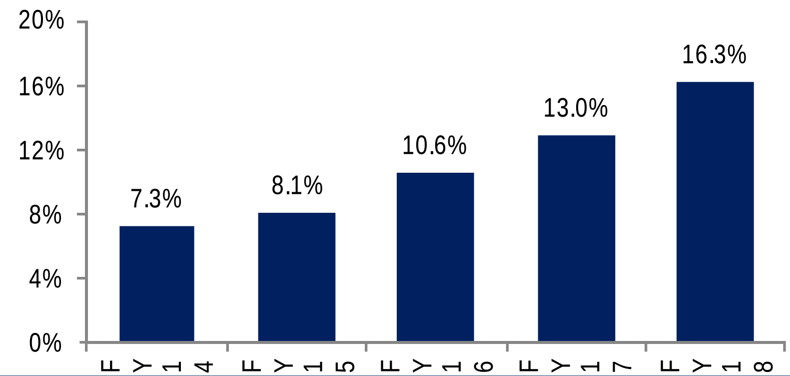
- Certain law & order incidents in Islamabad, as witnessed recently, could restrict access to the hospital and negatively impact earnings if continued.

Exhibit: Valuation Parameters

	Jun-14A	Jun-15E	Jun-16F
Earning per Share - PKR	9.2	11.4	17.7
Dividend per Share - PKR	3.0	3.0	5.3
Price to Earning (x)	23.8	19.1	12.4
Price to Book (x)	5.8	4.8	3.8
Dividend Yield (%)	1.4	1.4	2.4
Return on Assets (%)	8.3	9.5	13.7
Return on Equity (%)	26.7	27.5	33.9
EBITDA Margins (%)	17.9	17.9	20.5
Net Margins (%)	7.3	8.1	10.6

Source: Company Financials, AHL Research

Exhibit: Net Margins Moving North



Source: Company Financials, AHL Research

Health Care

Shifa International Hospital

Target Price			287.3
Current Price			218.7
Upside			31.4%
Market Capitalization (PKR mn)			11,739
Market Capitalization (USD mn)			117
PKR mn	**Jun-14A**	**Jun-15E**	**Jun-16F**
Income Statement			
Sales	6,393	7,155	8,379
Gross Profit	770	955	1,366
Other Income	56	45	47
Finance Cost	190	137	102
Post Tax Profit	464	578	892
Balance Sheet			
Shareholder's Equity	1,889	2,316	2,940
Long Term Loans	1,167	1,083	750
Total Non-Current Liabilities	1,608	1,489	1,172
Trade Payables	1,198	1,321	1,494
Total Current Liabilities	1,598	1,719	1,890
Total Equity & Liabilities	5,856	6,284	6,762
Non-Current Assets	4,077	4,415	4,750
Current Assets	1,481	1,571	1,715
Total Assets	5,856	6,284	6,762
Cash Flow Statement			
From Operating Activities	1,021	912	1,272
From Investing Activities	(748)	(617)	(642)
From Financing Activities	(364)	(272)	(587)
Net Change in Cash	(92)	23	43
Ending Cash	570	472	515

Relative Performance	**3M**	**6M**	**12M**
Total Return (%)	30.4	54.0	70.5
Average Volume (mn Shares)	0.07	0.06	0.04
High Price - PKR	235.1	235.1	235.1
Low Price - PKR	157.3	118.6	103.2
	Jun-14A	**Jun-15E**	**Jun-16F**
Shareholder Ratios			
Earning per Share - PKR	9.2	11.4	17.7
Book Value per Share - PKR	37.4	45.8	58.2
Dividend per Share - PKR	3.0	3.0	5.3
Dividend Payout Ratio (%)	32.7%	26.2%	30.0%
Price Ratios			
Price to Earning (x)	23.8	19.1	12.4
Price to Book (x)	5.8	4.8	3.8
Dividend Yield (%)	1.4	1.4	2.4
Profitability Ratios			
Gross Margins (%)	12.0	13.3	16.3
EBIT Margins (%)	12.9	14.0	16.9
EBITDA Margins (%)	17.9	17.9	20.5
Net Margins (%)	7.3	8.1	10.6
Financial Leverage Ratios			
Debt to Equity (x)	0.82	0.63	0.38
Debt to Assets (x)	0.26	0.23	0.17
Return Ratios			
Interest Coverage Ratio (x)	4.3	7.3	13.8
Earning Yield (%)	4.2	5.2	8.1
Return on Assets (%)	8.3	9.5	13.7
Return on Equity (%)	26.7	27.5	33.9

Other Companies in Focus I 2015

Emerging stars…

Other Companies in focus

Emerging stars...

Code	Company	Mkt Cap (USDmn)	1Yr Avg. Volume (000)	Last Price (PKR)	Freefloat (%)	52-Weeks High	52-Weeks Low	Trailing PE	Trailing PBV
BERG	Berger Paints Pakistan Ltd.	19.2	151.7	105.7	50.0	113.0	43.0	20.3	3.3
CEPB	Century Paper and Board Mills Ltd.	79.7	267.1	54.2	35.0	76.3	39.3	12.7	1.4
GHGL	Ghani Glass Mills Ltd.	83.8	72.1	68.0	35.0	75.3	48.4	9.1	1.3
IBLHL	IBL HealthCare Ltd.	44.4	69.9	148.5	19.2	162.5	54.3	29.8	8.5
IGIL	IGI Insurance Ltd.	332.0	166.4	270.6	33.7	270.6	140.4	40.9	3.1
MLCF	Maple Leaf Cement Factory Ltd.	233.5	8,309.9	44.3	45.0	44.3	25.5	8.3	2.4
PAEL	Pak Elektron Ltd.	163.0	5,661.9	40.9	33.3	40.9	16.0	26.8	2.5
PIBTL	Pakistan International Bulk Terminal	187.3	1,940.1	24.7	40.0	142.0	18.7	nm	2.9
PKGP	Pakgen Power Ltd.	15.7	1,020.5	27.0	8.0	30.5	16.9	10.2	0.8
PKGS	Packages Ltd.	572.3	87.1	678.3	35.4	682.1	264.3	37.0	1.4
SEARL	The Searle Company Ltd.	207.6	558.4	241.8	45.0	282.4	88.3	23.7	5.6
TGL	Tariq Glass Ltd.	34.6	601.9	47.1	35.0	56.3	23.9	209.7	1.4

Code	Key Ratios	Gross Margins (%)	Net Margins (%)	RoA (%)	RoE (%)	Book Value - PKR	Dividend Yield (%)	Revenue Growth (%)	Profit Growth (%)
BERG	Berger Paints Pakistan Ltd.	24.3	2.1	3.0	17.8	31.9	0.9	8.2	46.9
CEPB	Century Paper and Board Mills Ltd.	13.8	4.3	4.8	10.9	39.1	-	3.0	(32.2)
GHGL	Ghani Glass Mills Ltd.	23.6	8.8	7.9	13.6	50.8	-	1.6	5.2
IBLHL	IBL HealthCare Ltd.	35.7	16.4	26.7	32.2	17.4	0.7	5.4	47.9
IGIL	IGI Insurance Ltd.	498.6	776.8	6.3	7.7	88.4	0.9	(55.0)	(329.7)
MLCF	Maple Leaf Cement Factory Ltd.	34.4	14.9	8.8	34.3	18.5	-	9.3	(12.2)
PAEL	Pak Elektron Ltd.	24.6	3.7	2.3	11.6	16.4	-	(7.3)	429.7
PIBTL	Pakistan International Bulk Terminal	(457.6)	(278.0)	(0.3)	(0.5)	8.7	-	(25.5)	(18.7)
PKGP	Pakgen Power Ltd.	5.7	2.9	4.9	7.8	38.6	8.3	11.9	(45.4)
PKGS	Packages Ltd.	13.4	10.4	3.1	4.3	498.8	1.2	26.8	(163.4)
SEARL	The Searle Company Ltd.	44.6	11.5	14.4	26.7	42.8	-	26.5	21.8
TGL	Tariq Glass Ltd.	14.5	0.2	0.7	0.7	32.5	1.1	99.4	(95.5)

Source: Companies Financials, AHL Research

Other Companies in focus

Emerging stars... cont'd

Code	Company	Mkt Cap (USDmn)	1Yr Avg. Volume (000)	Last Price (PKR)	Freefloat (%)	52-Weeks High	52-Weeks Low	Trailing PE	Trailing PBV
AGTL	AL-Ghazi Tractors Ltd.	212.7	28.4	367.0	6.0	450.0	140.6	10.5	2.6
BATA	Bata Pakistan Ltd.	263.8	0.7	3,490.0	23.1	3,813.2	2,615.0	21.4	5.9
DAWH	Dawood Hercules Corporation Ltd.	406.7	366.8	84.5	70.0	93.6	55.5	11.3	1.4
IBFL	Ibrahim Fibre Ltd.	279.4	12.5	90.0	5.0	102.0	56.1	32.0	1.1
ICI	ICI Pakistan Ltd.	427.1	75.8	462.5	15.0	597.6	248.5	23.3	3.8
JSIL	JS Investment Ltd.	12.6	1,127.0	12.6	50.0	14.2	10.3	2.1	0.7
LPL	Lalpir Power Ltd.	13.2	972.4	29.9	20.0	33.5	16.4	19.4	1.0
MTL	Millat Tractors Ltd.	286.5	41.6	646.9	40.0	687.9	420.7	19.9	5.7
NATF	National Foods Ltd.	410.5	22.0	396.2	45.0	396.3	209.8	57.9	18.6
SFL	Sapphire Fibers Ltd.	88.6	10.7	450.0	10.0	468.9	263.4	6.7	0.6
SHEZ	Shezan International Ltd.	96.4	3.0	1,207.2	45.0	1,254.0	615.0	37.1	6.4
THAL	Thal Ltd.	218.0	82.6	269.0	40.0	309.1	132.6	14.5	1.3

Code	Key Ratios	Gross Margins (%)	Net Margins (%)	RoA (%)	RoE (%)	Book Value - PKR	Dividend Yield (%)	Revenue Growth (%)	Profit Growth (%)
AGTL	AL-Ghazi Tractors Ltd.	22.3	21.8	21.0	25.1	141.8	13.6	(37.3)	5.6
BATA	Bata Pakistan Ltd.	39.1	9.6	20.5	29.2	595.3	1.2	11.3	20.7
DAWH	Dawood Hercules Corporation Ltd.	16.3	74.5	9.9	13.2	60.1	1.2	5.2	266.3
IBFL	Ibrahim Fibre Ltd.	2.8	1.8	7.1	3.3	85.4	-	23.5	(84.2)
ICI	ICI Pakistan Ltd.	11.2	4.3	8.4	17.4	123.0	1.7	12.9	141.8
JSIL	JS Investment Ltd.	77.5	59.7	29.2	39.4	18.1	8.0	54.5	187.3
LPL	Lalpir Power Ltd.	5.0	1.8	2.9	5.3	31.8	7.6	11.1	(55.4)
MTL	Millat Tractors Ltd.	18.0	8.3	15.4	27.3	114.0	6.2	(25.3)	(35.1)
NATF	National Foods Ltd.	35.1	7.3	15.3	36.4	21.3	2.0	13.8	5.2
SFL	Sapphire Fibers Ltd.	10.5	8.8	7.0	9.9	751.6	2.8	7.3	10.4
SHEZ	Shezan International Ltd.	30.0	3.8	10.5	18.4	188.5	0.8	19.1	4.1
THAL	Thal Ltd.	14.8	10.5	8.0	9.1	205.0	5.6	(8.1)	(20.1)

Source: Companies Financials, AHL Research

Other Companies in focus

Emerging stars... cont'd

Code	Company	Mkt Cap (USDmn)	1Yr Avg. Volume (000)	Last Price (PKR)	Freefloat (%)	52-Weeks High	52-Weeks Low	Trailing PE	Trailing PBV
BAHL	Bank AL-Habib Ltd.	76.6	656.0	7.1	60.0	50.1	33.8	10.5	2.1
HMB	Habib Metropolitan Bank Ltd.	539.6	399.0	48.6	45.0	38.4	21.9	11.1	1.4
JSBL	JS Bank Ltd.	390.8	1,887.2	37.3	30.0	7.7	4.1	21.8	0.9

Code	Key Ratios	Gross Margins (%)	Net Margins (%)	RoA (%)	RoE (%)	Book Value - PKR	Dividend Yield (%)	Revenue Growth (%)	Profit Growth (%)
BAHL	Bank AL-Habib Ltd.	3.5	14.4	112.8	2,099.8	22.7	4.1	(7.2)	(5.5)
HMB	Habib Metropolitan Bank Ltd.	3.4	16.1	114.5	1,255.5	26.7	5.4	1.9	3.5
JSBL	JS Bank Ltd.	3.0	12.0	36.2	392.5	8.3	-	2.7	(50.5)

Source: Companies Financials, AHL Research

Recommendation Summary

S.No	Company	Symbol	Price 31-Dec	Target Price (Dec'15)	Upside/ Downside	Stance	Shares (mn)	EPS (PKR) 2014	EPS (PKR) 2015	EPS (PKR) 2016	DPS (PKR) 2014	DPS (PKR) 2015	DPS (PKR) 2016	P/E (x) 2014	P/E (x) 2015	Div. Yield (%) 2014	Div. Yield (%) 2015	P/B (x) 2014	P/B (x) 2015	ROE (%) 2014	ROE (%) 2015
Exploration & Production																					
1	Pakistan Petroleum Ltd.	PPL	176.5	237.0	34.3%	Buy	1,972	26.1	23.2	21.4	11.0	12.5	13.5	6.8	7.6	6.2	7.1	1.9	1.7	31.0	23.8
2	Pakistan Oilfields Ltd.	POL	379.4	492.0	29.7%	Buy	237	54.5	51.1	53.2	60.1	40.9	42.7	7.0	7.4	15.8	10.8	2.5	2.6	37.8	34.8
3	Oil and Gas Development Co.	OGDC	205.9	240.0	16.6%	Buy	4,301	28.8	22.9	23.7	10.5	12.5	13.5	7.1	9.0	5.1	6.1	2.2	2.0	35.0	23.3
Banks																					
4	Faysal Bank Ltd.	FABL	18.2	23.7	30.2%	Buy	1,043	2.3	3.3	3.8	0.0	0.0	0.6	8.1	5.6	0.0	0.0	0.8	0.7	10.0	12.7
5	Allied Bank Ltd.	ABL	113.6	144.5	27.2%	Buy	1,145	13.7	13.8	15.7	6.0	8.0	9.0	8.3	8.3	5.3	7.0	1.7	1.5	22.0	19.6
6	Bank Alfalah Ltd.	BAFL	34.9	43.5	24.7%	Buy	1,587	3.5	3.9	4.5	2.0	2.0	3.0	10.1	8.9	5.7	5.7	1.3	1.2	15.1	14.5
7	United Bank Ltd.	UBL	176.7	219.3	24.1%	Buy	1,224	16.5	17.3	20.5	11.0	10.0	11.0	10.7	10.2	6.2	5.7	2.0	1.8	19.2	18.4
8	National Bank of Pakistan	NBP	69.5	83.7	20.5%	Buy	2,128	7.4	7.8	9.6	6.0	6.0	8.0	9.5	9.0	8.6	8.6	0.9	0.8	9.6	9.3
9	Habib Bank Ltd**	HBL	216.3	Coverage Restricted																	
10	MCB Bank Ltd.	MCB	305.7	357.1	16.8%	Buy	1,113	22.2	23.5	27.8	14.0	14.0	15.0	13.7	13.0	4.6	4.6	2.8	2.5	21.3	20.4
11	Meezan Bank	MEBL	47.0	52.5	11.7%	Buy	1,003	4.4	4.7	5.3	2.0	2.5	3.5	10.7	10.0	4.3	5.3	2.2	2.0	21.8	20.8
Fertilizer																					
12	Engro Corporation	ENGRO	221.5	376.1	69.8%	Buy	524	16.2	28.8	39.3	2.0	5.0	6.0	13.7	7.7	0.9	2.3	1.6	1.6	13.3	20.9
13	Fauji Fert. Bin Qasim	FFBL	45.2	60.7	34.3%	Buy	934	5.5	6.1	6.6	4.7	5.0	6.0	8.3	7.4	10.3	11.1	2.9	2.7	36.1	38.0
14	Engro Fertilizer	EFERT	78.1	99.3	27.2%	Buy	1,318	5.9	9.5	11.1	1.5	3.0	3.0	13.3	8.2	1.9	3.8	3.5	2.7	27.9	37.0
15	Fauji Fertilizer Co.	FFC	117.1	139.0	18.7%	Buy	1,272	13.1	14.3	15.5	13.0	14.0	15.0	8.9	8.2	11.1	12.0	5.9	5.8	66.3	71.1
16	Fatima Fertilizer*	FATIMA	35.8	NC	NC	NA	2,100	na	na	na	na	na	na	na	na	-	-	na	na	na	-
17	Arif Habib Corporation*	AHCL	27.5	NC	NC	NA	454	5.1	na	na	2.5	na	na	5.4	na	9.1	-	na	na	30.3	-
Construction & Material (Cement)																					
18	D.G. Khan Cement Co.	DGKC	110.5	149.4	35.2%	Buy	438	13.6	15.6	17.2	3.5	4.0	5.0	8.1	7.1	3.2	3.6	0.8	0.7	10.9	10.6
19	Attock Cement Ltd.	ACPL	195.2	262.6	34.5%	Buy	115	17.6	22.8	25.3	13.0	15.0	14.0	11.1	8.6	6.7	7.7	2.6	2.4	24.7	29.3
20	Fecto Cement	FECTC	79.3	100.7	27.0%	Buy	50	11.9	14.7	15.2	2.5	3.0	3.5	6.7	5.4	3.2	3.8	1.7	1.6	27.8	30.0
21	Kohat Cement Company	KOHC	190.9	223.1	16.9%	Buy	155	20.4	21.8	25.5	2.0	2.0	7.6	9.3	8.8	1.0	1.0	3.4	2.5	43.1	33.1
22	Lucky Cement Ltd.	LUCK	500.3	561.2	12.2%	Buy	323	35.1	43.8	47.3	9.0	10.0	11.0	14.3	11.4	1.8	2.0	3.2	2.3	25.0	23.9
23	Fauji Cement Company	FCCL	25.8	28.0	8.4%	Hold	1,331	2.0	3.0	3.8	1.5	2.0	2.5	13.1	8.6	5.8	7.7	2.2	2.0	16.6	23.9
24	Power Cement*	POWER	7.1	NC	NC	NA	366	(0.20)	-	-	-	na	na	nm	na	-	-	1.8	na	-5.1	0.0
Oil Marketing																					
25	Pakistan State Oil	PSO	357.9	510.0	42.5%	Buy	272	80.3	53.8	64.8	8.0	15.0	15.0	4.5	6.6	2.2	4.2	1.2	1.1	31.0	17.4
26	Attock Petroleum Ltd.	APL	539.6	580.0	7.5%	Hold	83	52.2	55.2	60.6	47.5	44.0	48.5	10.3	9.8	8.8	8.2	3.2	3.0	31.1	32.1
Autos																					
27	Indus Motor Company	INDU	880.3	1028.2	16.8%	Buy	79	49.3	91.2	92.7	29.5	50.0	50.0	17.9	9.7	3.4	5.7	3.5	3.0	20.6	33.3
28	Pak Suzuki Motor Co.	PSMC	371.1	421.7	13.6%	Buy	82	27.5	60.1	0.0	4.5	10.0	5.5	13.5	6.2	1.2	2.7	1.6	1.3	12.2	23.1
Electricity																					
29	K-Electric Ltd.	KEL	9.2	13.1	42.2%	Buy	27,615	0.5	0.6	0.7	0.50	0.5	0.5	19.8	16.6	5.3	5.4	3.6	3.0	20.7	19.5
30	Hub Power Company	HUBC	78.4	88.7	13.3%	Buy	1,157	5.7	7.5	10.2	6.5	7.0	8.0	13.8	10.5	8.3	8.9	2.9	2.9	20.6	27.7
31	Kot Addu Power Co.	KAPCO	78.9	85.5	8.4%	Buy	880	8.8	8.1	9.3	6.5	8.5	10.7	9.0	9.7	8.2	10.8	2.5	2.5	29.1	25.7
32	Nishat Power Limited	NPL	45.6	45.9	0.6%	Hold	354	8.2	8.5	8.8	4.0	6.0	7.0	5.5	5.4	8.8	13.2	1.6	1.4	29.8	27.2
33	Nishat Chunian Power Ltd.	NCPL	49.6	46.9	-5.4%	Hold	367	7.9	8.2	8.2	6.5	7.4	7.8	6.3	6.1	13.1	14.9	2.6	2.4	40.5	40.9
Personal Goods (Textiles)																					
34	Nishat Mills Ltd.	NML	121.0	159.3	31.7%	Buy	352	15.7	15.7	20.9	4.0	4.0	5.0	7.7	7.7	3.3	3.3	0.6	0.6	8.8	7.9
35	Nishat (Chunian) Ltd.	NCL	45.4	58.3	28.4%	Buy	200	3.8	8.2	11.9	1.0	2.0	3.0	11.9	5.5	2.2	4.4	1.0	0.9	8.8	16.8
Chemical																					
36	Lotte Chemical Pak Ltd.	LOTCHEM	6.9	8.1	17.3%	Buy	1,514	-1.5	1.0	-0.1	0.0	0.0	0.0	-4.5	6.6	0.0	0.0	1.1	1.1	-22.2	17.2
37	Engro Polymer & Chem.	EPCL	12.0	12.9	7.7%	Hold	663	0.2	-1.9	-0.4	0.0	0.0	0.0	71.9	-6.2	0.0	0.0	1.1	1.4	1.6	-20.0
Fixed Line Telecom																					
38	Pak Telecom Co. Ltd	PTC	23.0	30.9	34.2%	Buy	5,100	2.2	2.9	0.0	1.5	2.0	2.0	10.6	7.8	6.5	8.7	0.9	0.9	8.8	11.5
Industrial Transportation																					
39	Pak. National Shipping Corp	PNSC	160.4	203.3	26.8%	Buy	132	16.3	17.1	25.4	1.5	1.6	2.4	9.9	9.4	0.9	1.0	0.9	0.8	10.0	9.4

*** Group Company, ** Arif Habib Limited is an advisor in the privatization transaction of HBL**

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List of Abbreviation

AHL	Arif Habib Limited	FY	Fiscal Year	O&M	Operations & Maintance
ADIP	Auto Industry Development Policy	FX	Foreign Exchange Reserves	PBS	Pakistan Beaure of Statistic
APRUs	Average Revenue per User	FM	Frontier Markets	PIB	Pakistan Investment Bonds
ANP	Awami National Party	FO	Furnace Oil	PML (F)	Pakistan Muslim League (Functional)
BNP	Balochistan National Party	GSP	Generalised Scheme of Preferences	PML (N)	Pakistan Muslim League (Nawaz Group)
CY	Calendar Year	GDP	Gross Domestic Product	PML (Q)	Pakistan Muslim League (Quaiazam Group)
CAR	Capital Adequacy Ratio	HUBC	Hub Power Company Ltd	PPPP	Pakistan Peoples Party Parliamentarians
CG	Central Government	IPPs	Independent Power Producers	PKR	Pakistan Rupee
CKD	Complete Knock Down	ICT	Information & Communications Technology	PSO	Pakistan State Oil
CAGR	Compounded Annual Growth Rate	ICH	International Clearing House	PTI	Pakistan Tahreek-e Insaaf
CNG	Compressed Natural Gas	IFC	International Finance Corporation	POL	Petroleum Products Prices
CPI	Consumer Price Index	IMF	International Monetary Fund	GENCOs	Power Generation Companies
CASA	Current Account Saving Account	JI	Jamat-e-Islami	PER	Price Earning Ratio
DAP	Diamonium Phosphate	JUI-F	Jamiat Ulema-e-Islam (F)	PBV	Price to Book Value
DPS	Dividend Per Share	KSE	Karachi Stock Exchange	PAT	Profit After Tax
DY	Dividend Yield	KO	Kerosene Oil	RGDP	Real Gross Domestic Product
EBITDA	Earning Before Interest, Taxes & Amortization	KAPCO	Kot Addu Power Company	ROA	Return on Assets
EGrow	Earning Growth	LDI	Long Distance, International	ROE	Return on Equity
EPS	Earrings Per Share	MW	Mega Watts	SME	Small Medium Enterprises
EM	Emerging Markets	MMBTU	Metric Million British Thermal Unit	SBP	State Bank of Pakistan
EV	Enterprise Value	MSCI	Morgan Stanley Composite Index	T&D	Transmission & Distribution
EU	European Union	MS	Motor Spirit	USD	US Dollar
Ex	Excluding	MQM	Muttahida Quami Movement	VSS	Voluntary Separation Scheme
E&P	Exploration & Production	NFA	Net Domestic Assets	WAPDA	Water & Power Development Authority
EFF	Extended Fund Facility	NIM	Net Interest Margins		
FMCGs	Fast Moving Consumer Goods	NPL	Non Performaning Loans		
1H	First Half	OMCs	Oil Markeing Companies		

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