CHASE SECURITIES

SALES TEAM NOTE

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Pakistan Market Strategy

Market Outlook

Chase Sales Team

Muhammad Rizwan Khan
Kumail Raza
info@chasesecurities.com
+92-21-35293054-60

Top Energy Sector Picks:

E&P: MARI, POL, OGDC, PPL
OMCs: PSO, APL
Power: HUBC, NPL
Gas Utilities: SNGP

Pakistan Energy Sector: A Potential Sea Change Event

The KSE-100 Index closed at an impressive 47,076, marking a significant 394-point increase. These levels had not been seen since November 2021. The market experienced a remarkable 18% surge in July 2023, following the announcement of the IMF Standby Arrangement, which lured investors back into the market. This rally was predominantly driven by two key sectors: Commercial Banks and the Energy Sector, encompassing Exploration & Production (E&P), Oil Marketing Companies (OMCs), and Power.

In the Commercial Banks sector, the standout performer was UBL Bank Limited, which exceeded expectations with its generous payouts. This led investors to realize the potential for other banks to also announce consistent and high dividends, along with robust earnings growth.

Similarly, the Energy sector exhibited strong performance during the month, delivering stellar returns both month-to-date and year-to-date (Table 1). While some investors have raised queries about recent price performance and the right time to exit, it is important to consider the broader picture and the ongoing and potential developments in the energy sector.

Mr. Howard Marks often refers to "Sea Change" in his memos, describing a profound or notable transformation. In this context, the recent increase in electricity prices, expected rise in gas prices, and the implementation of the weighted average cost of gas (WACOG) as emphasized in the IMF Program could potentially mark a "Sea Change" moment for the Pakistan Energy Sector.

Over the weekend, media reports suggested that the Government is planning to pay PKR 415 billion to reduce gas circular debt. Additionally, the latest IMF document stated that the Ministry of Energy is working on guidelines to be issued to OGRA for implementing structural gas pricing changes implied by the WACOG bill enacted in March 2022. Once this is implemented, the WACOG will enable full cost recovery of more expensive imported RLNG (Re-Gasified Liquefied Natural Gas) and provide a more adequate price signal to guide gas consumption across all sectors, thereby helping to reduce power generation costs (Page 92, Section 17a).

Furthermore, it is crucial to note that the government's ongoing negotiations to hand over Distribution Companies (Discos) to provinces, as well as the news reports regarding the potential transfer of OGDC, PPL, and MARI to the Sovereign Wealth Fund to allow foreign investors to acquire stakes, are all integral parts of the broader reforms process in the energy sector. Changes in electricity and gas prices, along with the WACOG implementation, are expected to significantly improve the liquidity of the energy sector. Although the sector was already posting strong earnings, the enhanced cash flows will unlock dividends and consistent payouts, leading to a re-rating of the sector. Therefore, we urge investors to take a fresh look at the fundamentals of the Pakistan Energy chain and the listed companies, and focus on the broader outlook. Our top energy sector picks are OGDC, POL, MARI, PSO, APL, HUBC, NPL and SNGP.

Pakistan Energy Sector Returns (Table 1)

Companies	Price on Dec 30, 2022	Price on July 27, 2023	Capital Gain %	Dividend per share	Total CYTD Return*
E&P					
OGDC	79.66	91.67	15.1%	4.05	20.2%
POL	392.85	440.05	12.0%	20.00	17.1%
PPL	68.14	72.73	6.7%	1.00	8.2%
MARI	1546.96	1564.15	1.1%	89.00	6.9%
OMCs					
SHEL	107.44	149.11	38.8%	0.00	38.8%
SNGP	37.55	44.88	19.5%	0.00	19.5%
APL	289.71	310.96	7.3%	12.50	11.6%
SSGC	9.22	9.71	5.3%	0.00	5.3%
PSO	143.99	131.00	-9.0%	0.00	-9.0%
Power					
LPL	15.13	23.17	53.1%	2.00	66.4%
PKGP	30.00	43.50	45.0%	2.00	51.7%
HUBC	63.08	84.92	34.6%	8.50	48.1%
NCPL	14.23	20.19	41.9%	0.00	41.9%
NPL	18.21	22.27	22.3%	2.00	33.3%
SPWL	18.57	20.15	8.5%	2.50	22.0%
KAPCO	26.65	23.76	-10.8%	3.50	2.3%

* Dividends + Capital Gain

Important Disclosures

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