Insight Securities

Pakistan Economy

Potential winners in rate cut scenario

Over the past few months, headline inflation has begun to taper off, primarily due to the high base effect, alongside a MoM decline in food basket prices and a stable domestic currency. In Feb'24, CPI stood at ~23.0%, compared to ~31.5% during the SPLY. Similarly, core inflation is showing signs of cooling down and recorded at 15.5% and 21.9% for urban and rural baskets, respectively. Based on our projections, inflation for Mar'24 is expected to hover around the 20% mark, indicating a positive real interest rate for the first time in almost 3 years. We believe that the downward trend in headline inflation and the relatively stable domestic currency could serve as catalysts for the central bank to consider initiating monetary easing.

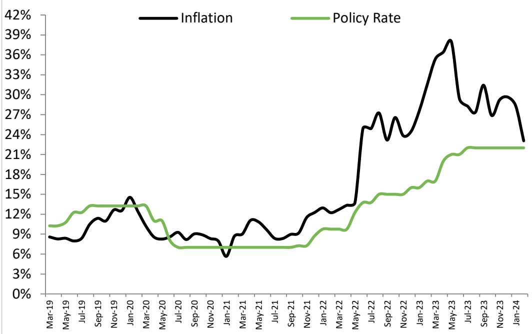
The elevated policy rate has had a significant impact on the country's business landscape. Companies have struggled to finance their working capital needs at such elevated financing rates. Likewise, there has been pressure on the demand for goods and services due to reduced consumer spending.

Secondary market yields have also declined by ~300-400 bps from their highs in Sep'23, further indicating that an interest rate cut is imminent.

The central bank's MPC meeting is scheduled for 18th March, where we anticipate the SBP to maintain the status quo given the recent transition of power to new government and the looming IMF review. However, we believe that the central bank will initiate monetary easing from the next MPC meeting scheduled for **29th April**. We anticipate that the central bank will likely reduce the benchmark rate by 500bps during CY24, bringing it down to 17% from the current 22%.

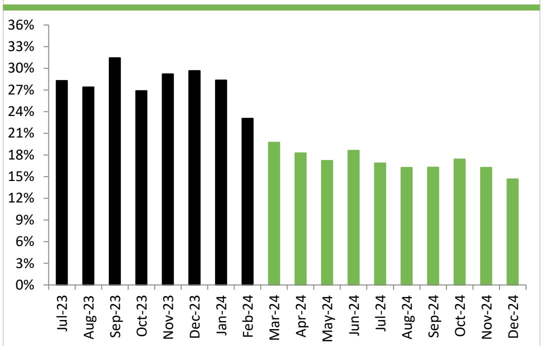
We believe that companies with higher financial leverage are poised to outperform the broader market in anticipation of cut in benchmark rate. **We've compiled data for key sectors in the listed space, outlining current debt structures and corresponding financial charges of selected companies, providing data points for decision-making. For our analysis, we have selected general industries excluding financial sector companies.**

Economy: Policy rate vs. Inflation



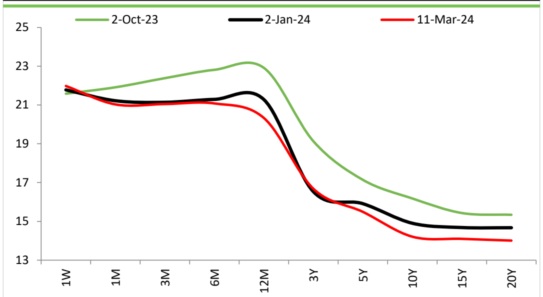
Source: SBP, PBS, Insight Research

Economy: Inflation Expectation (YoY)



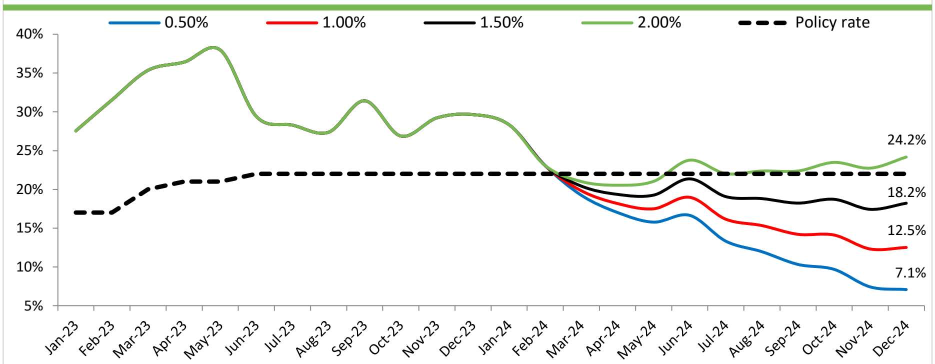
Source: SBP, PBS, Insight Research

Yield curve



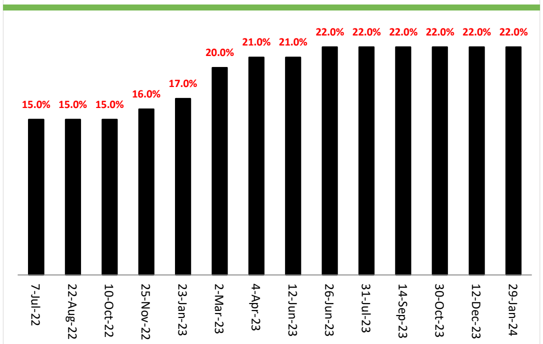
Source: SBP, Insight Research

Inflation sensitivity based on MoM growth



Source: SBP, PBS, Insight Research

Recent MPC decisions



Source: SBP, Insight Research

Type INSL <GO> to reach our research page on Bloomberg.

Analyst certifications and important disclosures are in the end.

Insight Research[AC]

research@insightsec.com.pk

+92-21-32462541 Ext 114

Cement: is a cyclical industry and they usually fund their expansion via borrowings which exposes them to volatility in interest rates. In listed space, POWER cement has the highest D/A ratio of ~45%. Similarly, BWCL & FCCL also have higher debt levels due to their recent capacity addition. However, many companies in the listed space availed TERF scheme for their expansion which shielded their borrowing charges from abrupt rise in policy rate. Cement sector companies with lower or negligible debt levels had a decent run in recent past. We expect that now companies with higher exposure to interest rates are likely to perform better in anticipation of rate cuts.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
POWER	5,960	23,701	45%	125%	4,587	14%	94%	1,197	22,504
BWCL	125,213	59,703	35%	94%	10,436	10%	39%	1,188	58,515
FCCL	43,342	41,623	29%	59%	4,888	7%	28%	1,036	40,587
DGKC	29,832	36,695	27%	51%	7,655	11%	105%	14,686	22,009
FLYNG	4,732	6,394	25%	52%	200	4%	37%	44	6,350
ACPL	12,033	11,818	25%	55%	165	1%	6%	1,818	10,000
CHCC	29,799	9,280	22%	39%	1,725	5%	18%	2,455	6,825
MLCF	39,778	17,448	18%	34%	3,159	5%	22%	3,800	13,648
PIOC	30,068	13,261	15%	30%	3,006	8%	29%	355	12,906
LUCK	222,302	20,585	10%	15%	1,362	1%	4%	24,244	(3,659)
KOHC	41,914	3,197	6%	9%	781	2%	8%	18,346	(15,149)
THCCL	1,929	197	4%	6%	53	1%	7%	1,748	(1,551)
GWLC	9,527	1,412	4%	6%	194	1%	9%	1,512	(100)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**

Based on TTM — BS as of Sep'23*

Engineering: The sector is heavily dependent on imported raw materials and experience extended period for receivables. Therefore, with the expected cut in interest rates is likely to provide respite to the sector's profitability. In the listed space, ASL, ASTL, MUGHAL and AGHA are relatively more sensitive to interest rate cut, as their finance costs as a percentage of their operating profit are 107%, 106%, 114% and 99%, respectively. Meanwhile, their debt-to-asset ratios stand at 42%, 50%, 43% and 52%, respectively. Moreover, cut in interest rate is likely to stimulate growth, leading to improved demand.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
AGHA	7,192	21,873	52%	134%	3,695	18%	99%	246	21,627
ASTL	6,977	21,343	50%	155%	4,337	10%	106%	264	21,079
MUGHAL	21,903	29,069	43%	114%	5,487	7%	53%	3,923	25,146
ASL	6,437	17,994	42%	152%	3,980	10%	107%	571	17,423
INIL	17,540	8,930	29%	56%	1,632	5%	57%	417	8,513
BCL	796	209	21%	60%	80	3%	24%	66	143
ITTEFAQ*	970	1,322	19%	29%	87	2%	NM	93	1,229
CSAP	5,591	1,854	17%	26%	480	7%	31%	1,218	636
ISL	29,811	3,161	7%	14%	984	1%	9%	1,717	1,444

Source: Company accounts, Insight Research — IS & BS as of Sep'23**

Based on TTM — BS as of Sep'23*

Glass: BGL has the highest D/A ratio of 40.2%, followed by TGL & GGGL at 22.4% & 21.8%, respectively. To note, an expected rate cut will decrease the financial burden of these companies and increase the demand of their products.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
BGL	2,273	993	40%	116%	160	225%	NM	5	988
TGL	17,301	6,086	22%	36%	452	2%	7%	1,316	4,770
GGGL	1,447	1,086	22%	44%	357	15%	80%	188	898
STCL	3,051	852	9%	29%	192	1%	15%	1,204	(352)
GHGL	25,553	28	0%	0%	106	0%	1%	1,934	(1,906)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**

Based on TTM — BS as of Sep'23*

Exploration & Production: E&Ps balance sheets are almost debt free and they currently hold significant cash and cash equivalents, from which they earn interest income. In a scenario where interest rates decline, these companies will witness a decline in their finance income.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
MARI	324,458	784	0%	0%	2,336	1%	2%	67,679	(66,895)
OGDC	531,552	0	0%	0%	5,863	1%	2%	122,216	(122,216)
POL	119,784	0	0%	0%	8,883	13%	21%	110,444	(110,444)
PPL	302,191	0	0%	0%	1,670	1%	1%	85,908	(85,908)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Oil Marketing Companies: The OMC sector relies on borrowings to fund their working capital requirement which has increased due to PKR depreciation and higher oil prices. Currently, OMCs are facing challenges as they have to borrow at higher interest rates to fund their operations. In the sector, PSO has the highest debt-to-asset ratio of 41%. This is due to receivables which are stuck in gas circular debt, resulting in higher borrowings. Therefore, PSO would be the beneficiary of an interest rate cut scenario. Along with this, HTL also stands to benefit, with a debt-to-asset ratio of 28% and a finance cost as % of operating profit of 130%. On the flip side, APL might see some reduction in bottom-line as company has cash & short term investment of PKR34bn.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
PSO	78,505	445,315	41%	202%	53,243	2%	56%	17,769	427,546
HTL	3,466	3,535	28%	62%	808	5%	130%	553	2,982
APL	50,004	-	-	-	-	-	0%	36,907	(36,907)
SHEL*	32,836	-	-	-	2500	1%	26%	15,157	(15,157)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Refineries: Like OMCs, refinery operations are also working capital intensive and rely on borrowings to fund their requirements. Among the listed space, NRL has the highest debt-to-asset ratio of 35% while PRL and CNERGY will also get benefit of reduction in policy rate as their debt-to-asset ratio stands at 24% and 14%, respectively. On the flipside, ATRL will be at disadvantage due to their cash & cash equivalent of PKR66bn on which the company is earning finance income.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
NRL	23,000	40,683	35%	136%	13,493	5%	151%	733	39,950
PRL	17,564	28,750	24%	90%	4,745	2%	27%	26,766	1,984
CNERGY	26,204	48,473	14%	27%	8,493	4%	NM	2,353	46,120
ATRL	36,960	-	0%	0%	2,016	1%	5%	65,644	(65,644)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Fertilizer: The fertilizer sector has less working capital requirements as compare to other sectors, leading to minimal borrowing needs. Consequently, it is less susceptible to the impact of higher interest rates. However, within the sector, AGL and FFBL are impacted by the current high-interest rate environment, each holding a debt-to-asset ratio of 27% and 22%, respectively. The higher debt-to-asset ratio for FFBL is primarily linked to the seasonal nature of the DAP business, leading to increased working capital requirements. On the other hand, AGL's operations are adversely affected by a reduced gas supply. For FFBL, finance cost as % of operating profit stands at ~40%. Similarly, AGL's finance cost to operating profit is at 3.8x, making it a loss-making entity. The anticipated interest rate cut is expected to bring considerable relief for both AGL and FFBL. These companies are poised to be the primary beneficiaries of the forthcoming interest rate reduction within the fertilizer sector. While companies having higher short-term investment will have a negative impact on bottom-line.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
AGL**	6,930	22,821	27%	247%	5,636	29%	279%	2,732	20,089
FFBL	33,340	31,844	22%	118%	8,828	5%	40%	73,650	(41,806)
FFC	149,335	38,033	17%	61%	5,624	4%	11%	95,595	(57,563)
EFERT	196,890	6,513	4%	14%	1,911	1%	3%	28,117	(21,604)
FATIMA**	78,183	12,839	6%	12%	4,399	2%	10%	16,543	(3,703)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Chemical: In chemical sector, NICL has the highest D/A ratio of ~63% followed by PAKOXY having D/A ratio of ~40%. The chemical industry mainly relies on imported raw materials and have to maintain decent inventory levels for smooth operations.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
NICL	10,344	20,182	63%	251%	3,248	8%	52%	299	19,883
PAKOXY*	6,887	7,416	40%	95%	688	8%	79%	340	7,076
EPCL	39,765	32,734	36%	114%	4,215	5%	23%	7,561	25,174
SITC	5,572	12,672	33%	75%	1,976	6%	55%	1,020	11,652
NRSL	2,760	1,839	29%	56%	388	4%	34%	179	1,660
GGL	3,562	4,985	25%	41%	551	8%	34%	1,409	3,576
ICL	3,935	3,878	23%	44%	633	3%	19%	458	3,420
LCI	69,280	15,261	17%	33%	3,815	3%	22%	15,202	59
BIFO	4,539	526	13%	17%	92	3%	8%	338	188
BUXL	126	45	8%	24%	11	2%	48%	53	(8)
BERG	1,701	554	8%	17%	277	3%	34%	209	345
DYNO	3,398	254	4%	6%	32	0%	1%	1,432	(1,178)
DOL	3,614	131	3%	4%	25	0%	2%	417	(286)
WAHN	1,719	49	2%	2%	57	1%	5%	255	(206)
COLG	323,131	801	1%	3%	163	0%	1%	25,285	(24,484)
LOTCHEM*	28,891	-	0%	0%	1,541	2%	16%	9,281	(9,281)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Cable & Electrical Goods: In cable and electrical goods, PCAL has the highest debt to asset ratio of ~45%, followed by 30% of EMCO. As borrowing rates decrease, these companies stand to gain from reduced financial expenses, while an improvement in economic activity will increase sales growth.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
PCAL	6,238	11,909	45%	124%	1,348	6%	61%	343	11,566
EMCO	1,242	1,654	30%	59%	336	8%	36%	17	1,637
SIEM	4,866	10,551	27%	157%	688	2%	-74%	1,835	8,716
PAEL**	19,354	14,306	23%	36%	3,694	9%	68%	632	13,674

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Automobile Assemblers: Auto sector has faced many challenges amid supply constraints, lower purchasing power and higher interest rates. In the scenario of an interest rate cut, HCAR, GAL, GHNI, and MTL are poised to be major beneficiaries, with debt-to-asset ratios of 26%, 18%, 17%, and 15%, respectively. A decline in interest rate will have a positive impact on the companies. Furthermore, reduction in markup rates will also improve the demand for the sector as approximately 30%-40% auto sales come from auto financing. However, companies like INDU and ATLH having higher cash & cash equivalent are likely to record a decline in their finance income.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
HCAR	32,917	14,192	26%	70%	574	1%	19%	274	13,918
GAL	4,502	2,445	18%	30%	458	5%	86%	1,121	1,324
GHNI	6,787	2,948	17%	36%	716	6%	94%	95	2,853
MTL	113,222	5,287	15%	44%	1,510	2%	9%	2,152	3,135
SAZEW	24,248	450	2%	11%	149	1%	4%	2,050	(1,599)
PSMC**	50,121	1,811	2%	13%	14,971	11%	176%	9,607	(7,796)
INDU	120,629	270	0%	0%	134	0%	1%	46,152	(45,882)
AGTL**	20,867	-	0%	0%	238	1%	7%	5,599	(5,599)
ATLH	48,424	-	0%	0%	89	0%	1%	38,956	(38,956)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Automobile Parts & Accessories: The automotive parts industry, which was already grappling with subdued demand due to a decline in automobile sales, has also faced challenges stemming from elevated interest rates. However, a strong rebound in the replacement market, coupled with a possible interest rate cut, is likely to provide some respite to the sector's profitability. SRVI has the highest debt-to-asset ratio of 51% followed by PTL and SGF having debt-to-asset ratio of 45% and 40%, respectively.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
SRVI*	29,367	41,641	51%	238%	7,546	8%	60%	2,439	39,202
PTL	6,569	9,140	45%	135%	1,137	4%	42%	534	8,606
SGF*	11,325	7,199	40%	106%	1,008	7%	70%	596	6,604
ATBA	8,894	7,220	37%	101%	1,147	3%	26%	1,502	5,717
EXIDE	2,910	4,331	28%	73%	478	2%	15%	1,278	3,053
LOADS	2,088	1,428	20%	48%	536	16%	112%	24	1,403
GTYR	4,169	2,871	15%	49%	1,536	9%	88%	199	2,672
AGIL	3,589	722	11%	16%	5	0%	3%	88	634
THALL	23,412	5,445	8%	11%	673	2%	35%	10,461	(5,016)
BWHL	2,247	-	0%	0%	7	0%	3%	660	(660)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Technology: Generally, technology companies are less working capital intensive as compared to manufacturing sector and is evident by debt-to asset ratio of SYS & AVN which stands at ~7% & 5%, respectively. However, other companies of the sector like PTC & AIRLINK are more dependent on borrowing due to their business structure having debt to asset ratio of 25% & 37%, respectively, therefore a decline in interest rate will bode well for these companies.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
AIRLINK	24,574	13,213	37%	100%	1,982	3%	44%	4,180	9,033
PTC*	48,685	159,795	25%	244%	51,720	27%	2493%	80,310	79,485
SYS**	117,796	3,530	7%	12%	788	2%	11%	7,932	(4,402)
AVN**	20,325	1,344	5%	9%	283	2%	18%	1,762	(418)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Pharmaceutical: Within the pharmaceutical listed universe OTSU has highest D/A ratio of 44% followed by SEARLE (28%) and FEROZ (26%). A cut in interest rate will reduce the cost for the sector and will aid companies with high leverage. In the listed space SEARL, OTSU, CPHL & AGP are more sensitive to cut in interest rates as there finance cost as % of operating profit stands at 97%, 64%, 37% & 37%, respectively.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
OTSU	1,619	1,095	44%	153%	92	3%	64%	19	1,076
SEARL	26,848	19,195	28%	53%	4,274	11%	97%	1,480	17,715
FEROZ	9,936	4,664	26%	53%	466	3%	33%	1,068	3,596
AGP	19,830	3,460	12%	32%	1,629	9%	37%	109	3,351
CPHL	5,481	1,169	12%	22%	422	3%	37%	1,488	(319)
IBLHL	2,738	300	8%	13%	73	2%	15%	19	281
MACTER	4,352	322	6%	11%	94	1%	22%	88	234
HINOON*	26,865	692	6%	8%	64	0%	2%	1,128	(436)
ABOT*	45,132	-	0%	0%	30	0%	1%	3,783	(3,783)
GLAXO**	27,388	-	0%	0%	303	1%	-15%	3,824	(3,824)
HALEON*	22,934	-	0%	0%	236	1%	14%	2,322	(2,322)
HPL*	12,152	-	0%	0%	175	1%	8%	467	(467)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Textile: Textile sector is highly reliant on borrowings to fund their working capital requirement. To support these industries, the government has provided financing through LTFF and EFS schemes. A decent portion of long-term loan for earlier capex of textile companies is based on LTFF & TERF facilities which is not sensitive to benchmark rate. However, short term refinancing scheme are now linked with policy rate and have severely impacted the bottom-line of the sector. In listed space, NCL and ILP has the highest D/A standing at ~62%/48%. Similarly, NCL and ILP finance cost as % of operating profit stands at 93%/21%, respectively. Other companies of the sector also has higher D/A ratio in the vicinity of ~40%. Therefore, any reduction in policy rate will provide much needed relief to the sector.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
NCL	5,844	48,291	62%	238%	7,202	9%	93%	174	48,117
ILP	99,634	68,140	48%	136%	7,699	5%	21%	1,323	66,817
ADMM	4,202	10,802	46%	134%	1,274	6%	54%	556	10,246
GADT	5,522	25,232	40%	120%	3,414	5%	84%	424	24,807
NML	23,895	80,405	39%	78%	9,616	6%	92%	2,279	78,126
GATM	14,720	55,601	39%	126%	8,989	6%	62%	1,762	53,839
FML	33,550	28,126	36%	84%	3,047	4%	37%	468	27,658
KTML	23,817	17,894	35%	68%	2,755	5%	42%	838	17,056
IMAGE	1,577	457	10%	18%	61	2%	12%	121	336
TOWL	2,653	39	0%	0%	44	0%	2%	3,083	(3,044)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Food & Personal Care: Anticipated interest rate reduction is poised to bring relief to the food sector by reducing its borrowing costs and potentially increasing consumer spending which will spur demand for FMCG products. In listed space, ISIL has the highest D/A ratio of ~58% followed by MFL & SCL with D/A ratio of ~54% & 45%, respectively.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
ISIL	79,628	49,579	58%	230%	6,969	6%	50%	2,206	47,373
MFL	3,331	13,160	54%	175%	1,752	7%	86%	452	12,708
SCL	1,037	1,439	45%	195%	284	6%	59%	5	1,434
UNITY	26,771	34,506	38%	167%	5,980	6%	54%	8,566	25,940
TREET	6,319	8,980	32%	60%	1,925	18%	178%	395	8,585
SHEZ	1,087	1,461	32%	79%	326	4%	142%	122	1,339
NATF	35,671	13,995	32%	101%	1,800	2%	27%	2,439	11,556
BNL	902	1,185	29%	60%	263	4%	67%	1	1,184
TOMCL	3,464	945	16%	20%	235	3%	43%	124	821
PREMA	2,921	1,150	15%	23%	273	3%	15%	65	1,085
MUREB	9,931	-	0%	0%	9	0%	0%	3,600	(3,600)
GLPL	4,938	-	0%	0%	178	8%	23%	496	(496)
CLOV*	858	-	0%	0%	-	0%	0%	4	(4)
GIL	299	-	0%	0%	-	0%	0%	143	(143)
QUICE	406	-	0%	0%	-	0%	0%	2	(2)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Paper & Board: Paper & board industry is also reliant on borrowings to fund their working capital requirement. TRIPF has the highest D/A ratio of ~41% within the sector. In recent times, sector's profitability has taken significant hit due to lower demand, supply chain issues and higher financing rate. The anticipated interest rate cut is likely to benefit them in the form of lower borrowing cost.

Companies	Market Cap (PKR mn)	Total Debt (PKR mn)	Debt-to-Asset	Debt-to-Equity	Finance Cost (PKR mn)	FC as % of sales	FC as % of operating profit	Cash & Cash Equivalent (PKR mn)	Net Debt (PKR mn)
TRIPF*	5,041	9,637	41%	169%	910	4%	36%	298	9,339
ECOP*	695	940	36%	80%	251	4%	54%	53	887
STPL	1,433	2,486	36%	81%	368	9%	NM	39	2,447
CEPB	11,284	9,593	33%	71%	1,985	4%	56%	1,002	8,591
CPPL	6,080	4,250	29%	56%	1,188	7%	42%	39	4,211
MERIT	2,170	2,041	29%	66%	395	6%	120%	13	2,028
PABC**	25,411	5,216	28%	53%	593	3%	10%	3,920	1,296
SPEL	2,650	864	13%	18%	115	2%	11%	469	395
MACFL	1,150	549	12%	29%	127	2%	13%	192	357
RPL	1,728	1,408	11%	17%	329	3%	55%	669	739
SEPL	7,937	-	0%	0%	7	0%	0%	2,682	(2,682)

Source: Company accounts, Insight Research — IS & BS as of Sep'23**
Based on TTM — BS as of Sep'23*

Conclusion: The expected decrease in interest rates over the coming months is poised to alleviate the burden of increased financial costs. We anticipate that companies with greater financial leverage will likely to outshine their counterparts. It's important to emphasize that these figures are intended for informed decision-making and should not be considered in isolation, as companies within the same sector may posses differing dynamics.

Important Disclaimer and Disclosures

Disclaimer: This report has been prepared by **Insight Securities (Private) Ltd**, hereinafter referred as 'ISL') and is provided for information purposes only. Under no circumstances is to be used or considered as an offer to sell or solicitation of any offer to buy. While all reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. This report is provided solely for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Statements regarding future prospects may not be realized while all such information and opinions are subject to change without notice. ISL recommends investors to independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

Investments in capital markets are subject to market risk and ISL accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular need of individuals, who should seek further advice before making any investment or rely upon their own judgment and acumen before making any investment. The views expressed in this document are those of the ISL Research Department and do not necessarily reflect those of ISL or its directors.

ISL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis in which they are based before the material is disseminated to their clients. ISL, as a full-service firm, has/intends to have business relationships, including investment-banking relationships, with the companies in this report. Investors should be aware of that the ISL may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision. This report may not be reproduced, distributed or published by any recipient for any purpose whatsoever without prior written approval by ISL. Action may be taken for unauthorized reproduction, distribution or publication.

ISL Stock Rating System: ISL employs a 3-tier rating mechanism i.e 'BUY', 'HOLD' and 'SELL', which is based upon the level of expected annualized return for a specific stock. When total annualized return (capital gain + dividends) exceeds 21.5%, a 'BUY' rating is assigned. A 'SELL' rating is issued whenever total annualized return is less than negative 5% and for return in between the 2 ranges, 'HOLD' rating is meted out. An 'Under Review' stance is given if ISL research stance depends upon the outcome of an uncertain event having significant impact on the valuations. Different securities firms use a variety of rating terms/systems to describe their recommendations. Similar rating terms used by other securities companies may not be equivalent to ISL rating system.

Time horizon is usually the annual financial reporting period of the company (unless otherwise mentioned in the report). Ratings are updated daily and can therefore change daily. They can change because of a move in the stock's price, a change in the analyst's estimate of the stock's fair value, a change in the analyst's assessment of a company's business risk, or a combination of any of these factors. In addition, research reports contain information carrying the analyst's views and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations.

Target price risk disclosures: Any inability to compete successfully in the markets may harm the business. This could be a result of many factors which may include (but not limited to) geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company may enter into transactions, including transactions in derivative instruments, to manage/offset certain of these exposures.

Valuation Methodology: To arrive at our period end target prices, ISL uses different valuation methodologies including

- Discounted cash flow (DCF)
- Relative Valuation (P/E, P/Bv, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

Frequently Used Acronyms

TP	Target Price	**DCF**	Discounted Cash Flows	**FCF**	Free Cash Flows
FCFE	Free Cash Flows to Equity	**FCFF**	Free Cash Flows to Firm	**DDM**	Dividend Discount Model
SOTP	Sum of the Parts	**P/E**	Price to Earnings ratio	**P/Bv**	Price to Book ratio
P/S	Price to Sales	**EVA**	Economic Valued Added	**BVPS**	Book Value per Share
EPS	Earnings per Share	**DPS**	Dividend per Share	**DY**	Dividend Yield
ROE	Return on Equity	**ROA**	Return on Assets	**CAGR**	Compounded Annual Growth Rate

ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES

Analyst Certification: The research analyst(s), if any, denoted by AC on the cover of this report, who exclusively reports to the research department head, primarily involved in the preparation, writing and publication of this report, certifies that (1) the views expressed in this report are unbiased and independent opinions of the Research Analyst(s) which accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The research analyst or any of its close relatives do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company and the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months. The Research analyst or its close relatives have not traded in the subject security in the past 7 days and will not trade in next 5 days.

Disclosure of Financial Interest: ISL or any of its officers and directors does not have a significant financial interest (above 1% of the value of the securities of the subject company) in the securities of the subject company. Under normal course of business, ISL, their respective directors, officers, representatives, employees and/or related persons may have a long or short position in any of the securities or other financial instruments mentioned or issues described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise. ISL or its employees may trade contrary to the recommendation given by ISL Research through this report or any other. ISL may be providing, or have provided within the previous twelve months, significant advice or brokerage services to the subject company. ISL may have, within the past twelve months, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all, the entities mentioned in this report or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company. Apart from this, ISL or any other of its officers and directors have neither served as a director/officer in any company under ISL research coverage in the past 3 years nor received any compensation from the subject company in the past 12 months.

ISL Research Dissemination Policy: ISL endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Insight Securities (Pvt.) Limited

Suite 509, Business and Finance Centre,

I. I. Chundrigar Road , Karachi, Pakistan

+92-21-32462541-44