ARIF HABIB LIMITED

REP-300

KSE-100 Index Profitability

Earnings Galore

Profitability growth stuns against pre-COVID times (+61% compared to 3QFY19)

Normalized recovery continues (+93% YoY / +12% QoQ growth) in 3QFY21

May 04, 2021

AHL Research

D: +92 21 32462742

UAN: +92 21 111 245 111, Ext: 322

F: +92 21 32420742

E: ahl-research@arifhabibltd.com

Best Corporate & Investment Bank: 2020

ASIAMONEY

Best Domestic Equity House

PSX PAKISTAN STOCK EXCHANGE LIMITED

Top 25 Companies

CFA Society Pakistan

Corporate Finance House of the Year: 2020

CFA Society Pakistan

Best Equity Research Analyst: 2020

KSE-100 Index Profitability

3QFY21: Earnings up by 93% YoY

- Earnings of the KSE-100 Index depicted a robust trend for another quarter, rising 93% YoY / 12% QoQ during 3QFY21. Compared to 3QFY19 and 3QFY18, earnings of the index have accelerated 61% and 48%, respectively.
- Moreover, earnings during 9MFY21 have augmented 55% YoY. Compared to 9MFY19 and 9MFY18, earnings of the index have improved by 47% and 41%, respectively.
- Broadly speaking, aggregate demand-led economic turnaround has helped cyclical sectors post a sharp rebound in profitability, with some sectors swinging into healthy profits compared to losses last year.
- During 3QFY21 / 1QCY21, major contributors to the jump in profitability growth include: Cement, OMC's, Fertilizer, Banks, Automobile Assemblers, Power Generation, and Textile Composite posting PKR 15bn (losses of PKR 2bn SPLY), PKR 12.2bn (losses of PKR 8.5bn SPLY), PKR 24.9bn (+230% YoY), PKR 62.1bn (+33% YoY), PKR 7.5bn (+139% YoY), PKR 15.6bn (+11% YoY) and PKR 8.6bn (+221% YoY), respectively. E&P earnings witnessed a contraction of 22% YoY. On a sequential basis, KSE-100 index earnings posted a 12% uptick QoQ, led by Banks (+30%), Cement (+29%), E&P (12%), OMC's (94%) and Chemicals (22%). Fertilizer and Power posted a decline in earnings of 9% and 19% QoQ, respectively.
- Earnings jump of 55% YoY during 9MFY21 was fueled by cyclical sectors with Cement posting profits of PKR 32.6bn against losses of PKR 1.6bn SPLY and OMC's posting earnings of PKR 26.9bn against losses of PKR 492mn SPLY. Meanwhile Fertilizer, Banks, Power, Chemicals, Textile Composite and Auto Assemblers posted a jump in earnings of 118%, 27%, 27%, 96%, 89% and 190% respectively. On the flipside, E&P earnings during 9MFY21 declined by 14% YoY.
- Sectors leading the profitability chart during 9MFY21 were Engineering (+2619% YoY), Technology & Communication (+1759% YoY), and Synthetic & Rayon (+1610% YoY). During 3QFY21, Synthetic & Rayon (+5999% YoY), Technology & Communication (+4715% YoY), Chemicals (+289% YoY), and Fertilizer (+230% YoY) led the earnings jump of the index.
- During 9MFY21, the KSE-100 index generated a return of 29.5% (+10,166 points). Technology sector posted the highest contribution during 9MFY21 (+2,061 points) followed by Cement (+1,847 points), Banks (+1,586 points), Textile Composite (+630 points), Power (+572 points), Auto Assemblers (+557 points), Chemical (+418 points), OGMCs (+337 points) and E&P (+317 points). However, Tobacco sector eroded 42 points from the index followed by Sugar (-5 points) and REIT (-2 points).
- On a sequential basis, during 3QFY21, the KSE-100 posted an 832 points jump with the return arriving at 1.9% (USD-based return of 6.62%). Technology sector posted the highest contribution during 3QFY21 (+810 points) amid re-rating, followed by Cement (+475 points) in lieu of sharp recovery in demand, Power Generation (+188 points) amid circular debt resolution plan, Refinery (+93 points), Auto Assemblers (+85 points) given robust sales, and Chemical (+71 points) attributable to strong results.
- We have based our analysis on the KSE-100 index companies. We have included the result of 94 companies while the remaining 6 companies have not disclosed their results yet. The companies which have been included in our analysis represent almost 98.3% of the market capitalization of the benchmark bourse.

KSE-100 Index Profitability

3QFY21: Earnings up by 93% YoY

Exhibit: Sector Wise KSE-100 Index Profitability

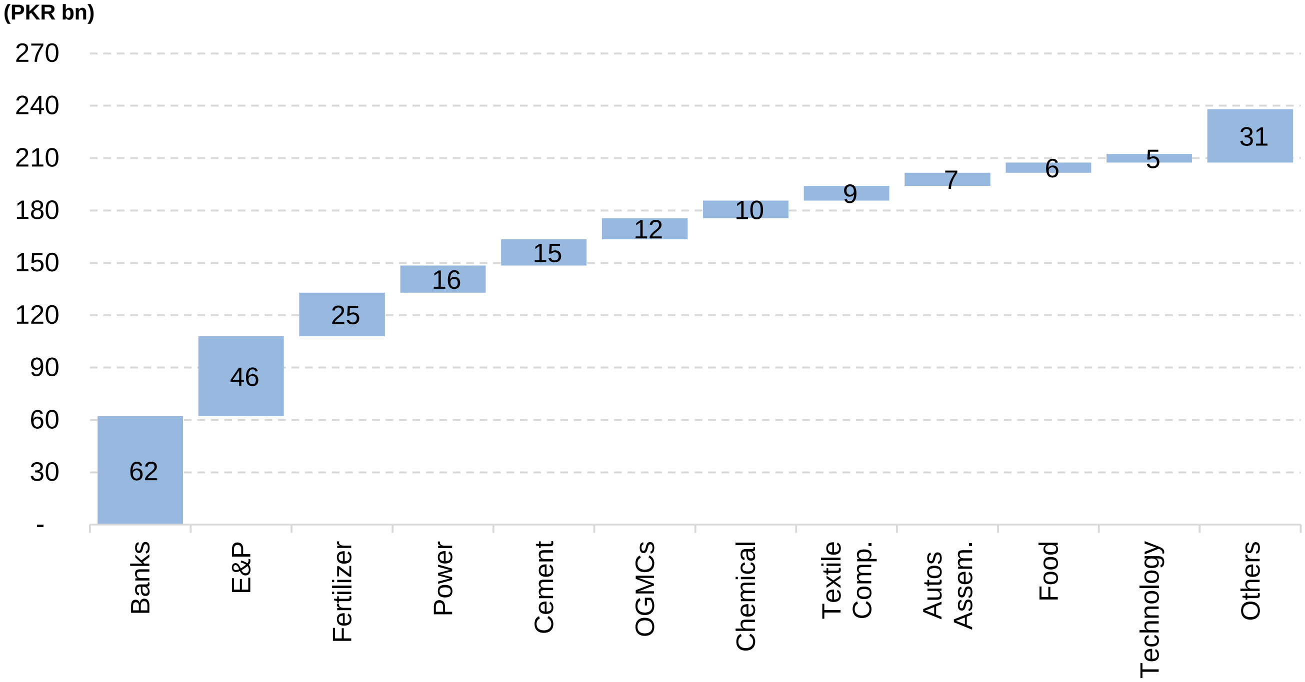
(PKR mn)	Weight	3QFY21	Change Over 3QFY20	Change Over 3QFY19	Change Over 3QFY18	QoQ	9MFY21	Change Over 9M20	Change Over 9M19	Change Over 9M18
KSE-100 Index		**242,962**	**93.0%**	**60.7%**	**47.6%**	**12.2%**	**672,084**	**54.5%**	**46.8%**	**41.0%**
Commercial Banks	21.2%	62,128	33.2%	63.4%	66.2%	29.6%	178,979	27.4%	68.1%	32.5%
Fertilizer	12.0%	24,932	229.8%	92.8%	95.0%	-8.5%	78,847	117.7%	61.2%	97.0%
Cement	10.6%	14,981	nm	94.9%	71.4%	29.4%	32,581	nm	51.8%	17.9%
Oil & Gas Exploration	10.5%	45,883	-21.6%	-11.4%	19.5%	11.6%	137,396	-13.9%	-13.3%	26.4%
Technology & Comm.	6.2%	4,933	4714.8%	719.3%	nm	-17.1%	13,761	1758.8%	302.0%	nm
Power Generation	5.3%	15,576	10.9%	116.7%	57.3%	-19.1%	50,288	26.9%	107.3%	76.6%
Oil & Gas Marketing	4.3%	12,187	nm	449.3%	62.2%	94.1%	26,907	nm	358.7%	36.7%
Textile Composite	3.5%	8,568	221.2%	64.5%	132.1%	45.9%	20,197	89.2%	12.7%	120.5%
Pharmaceuticals	3.5%	3,251	24.4%	51.2%	16.6%	-21.7%	10,845	37.0%	37.4%	12.8%
Automobile Assembler	3.3%	7,476	139.1%	86.5%	-4.7%	10.7%	18,080	189.5%	28.5%	-18.3%
Chemicals	2.9%	9,924	288.5%	111.4%	145.9%	21.6%	23,701	95.7%	78.5%	162.7%
Food & Personal Care	2.8%	5,791	181.0%	101.5%	34.6%	53.5%	13,242	141.0%	43.9%	9.7%
Investment Banks	2.4%	3,253	nm	102.2%	-74.1%	39.4%	9,329	179.6%	190.5%	-37.5%
Insurance	1.6%	2,693	100.5%	50.7%	-24.8%	5.2%	6,597	11.1%	51.6%	5.7%
Refinery	1.5%	2,712	nm	nm	156.5%	252.1%	2,062	nm	nm	-67.4%
Miscellaneous	1.4%	427	nm	98.5%	-26.7%	33.8%	401	-18.5%	317.8%	-64.9%
Engineering	1.4%	4,034	nm	280.5%	134.1%	-20.5%	9,463	2619.4%	130.3%	104.6%
Automobile Parts	0.9%	1,259	53.9%	0.2%	19.7%	8.9%	3,289	87.2%	1.2%	16.8%
Tobacco	0.9%	4,495	59.4%	61.0%	23.2%	-12.8%	13,373	54.5%	97.1%	30.5%
Paper & Board	0.8%	1,566	176.2%	20.2%	85.9%	-41.1%	5,137	309.0%	109.9%	17.5%
Glass & Ceramics	0.6%	876	54.1%	27.6%	23.9%	-33.3%	2,705	93.5%	12.6%	39.2%
Leather	0.5%	158	1046.0%	-43.4%	-39.1%	-64.2%	915	173.2%	-2.1%	25.1%
Transport	0.4%	353	nm	-24.6%	nm	-56.3%	1,622	140.0%	nm	nm
Cable & Electrical	0.4%	283	nm	56.2%	-47.1%	-28.5%	933	1210.2%	176.4%	-16.2%
Real Estate Investment	0.3%	706	-16.0%	-11.5%	3.9%	-75.4%	4,125	-15.1%	-19.8%	30.1%
Synthetic & Rayon	0.1%	3,172	5998.9%	nm	209.8%	116.4%	4,343	1610.4%	636.9%	201.8%
Leasing Companies	0.1%	245	35.8%	-4.7%	-66.0%	-1.9%	731	6.9%	-4.4%	-35.0%
Textile Spinning	0.1%	1,012	nm	nm	258.1%	54.5%	1,859	509.6%	237.9%	170.6%
Modarabas	0.1%	92	0.3%	2.6%	33.4%	9.5%	257	-3.4%	7.5%	16.0%
Vanaspati & Allied	0.0%	(6)	nm	nm	nm	nm	14	-76.4%	-88.8%	-88.7%
Textile Weaving	0.0%	4	nm	nm	nm	-32.8%	12	nm	nm	nm
Woollen	0.0%	(5)	nm	nm	nm	-106.5%	92	nm	nm	131.6%

Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

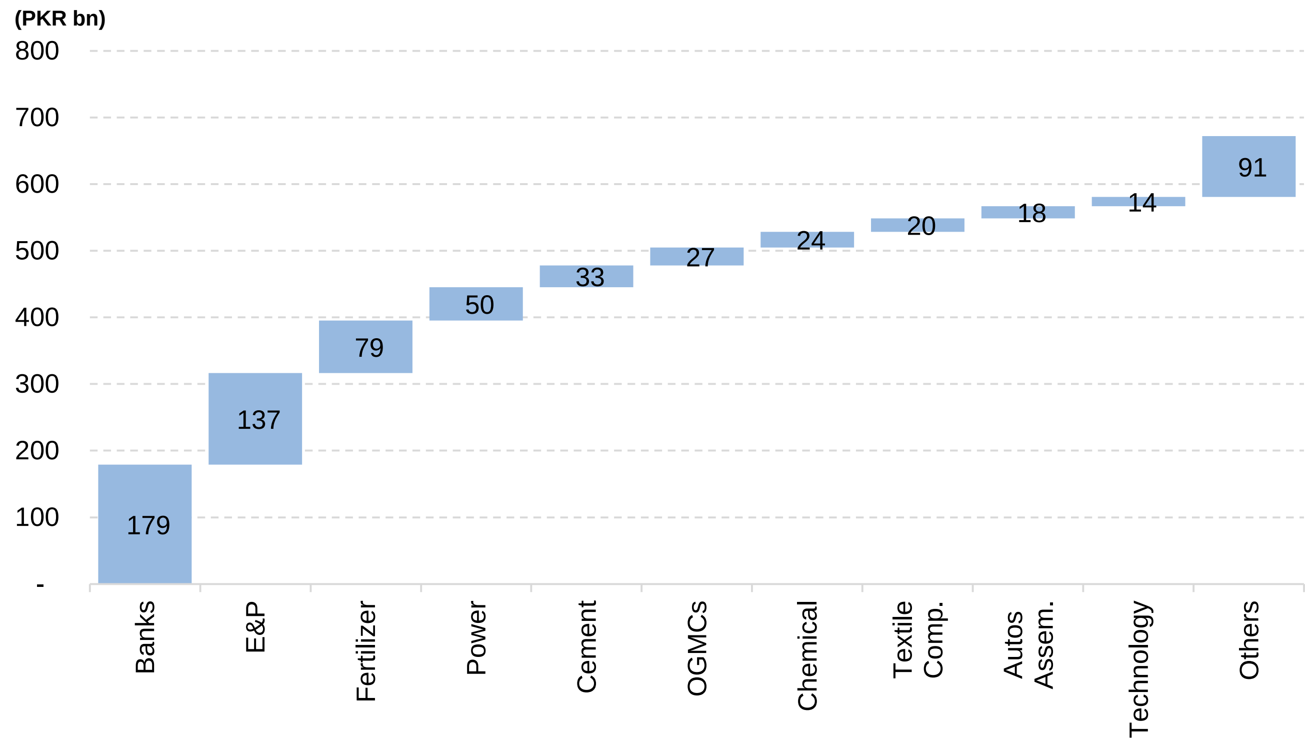
KSE-100 Index Profitability Contributions (Graphs)

Exhibit: Sector Wise Profitability Contribution (3QFY21)



Source (s): Company Financials, AHL Research

Exhibit: Sector Wise Profitability Contribution (9MFY21)

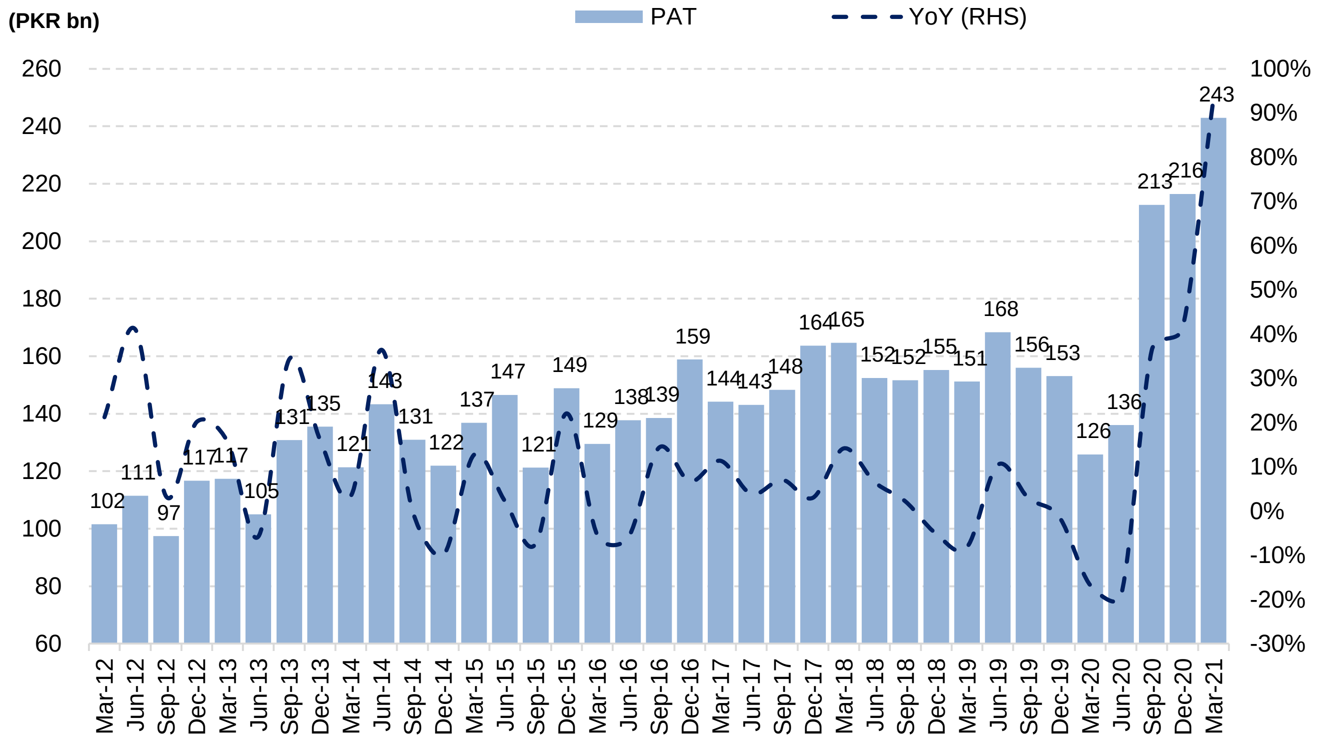


Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

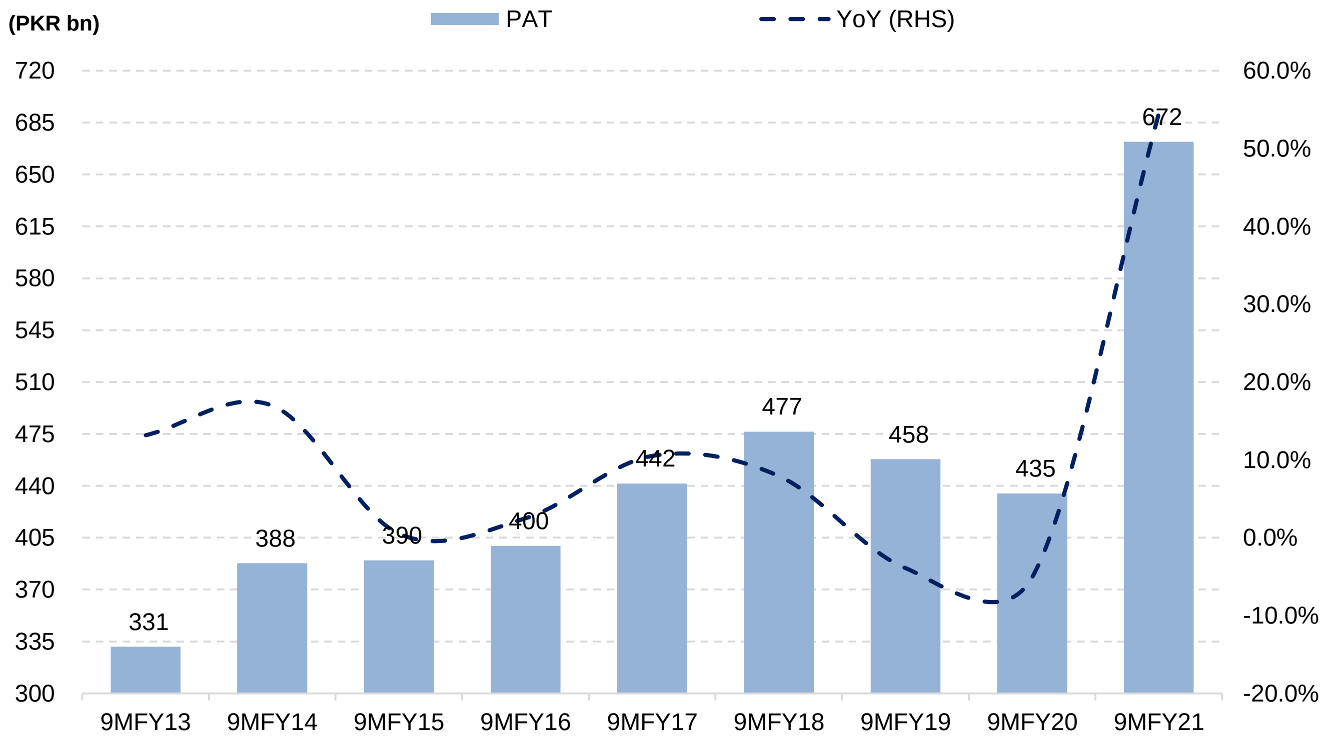
KSE-100 Profitability

Exhibit: Historical Trend of KSE100 Profitability (Quarterly basis)



Source (s): Company Financials, AHL Research

Exhibit: Historical Trend of KSE100 Profitability (9M basis)

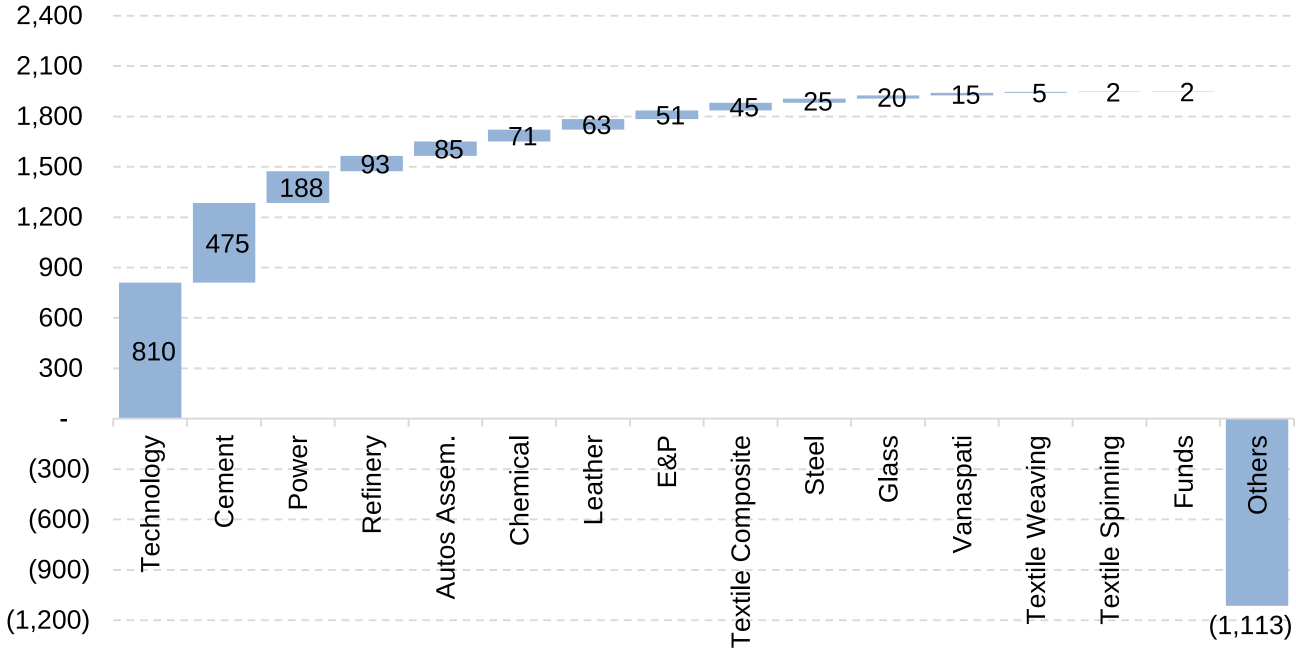


Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

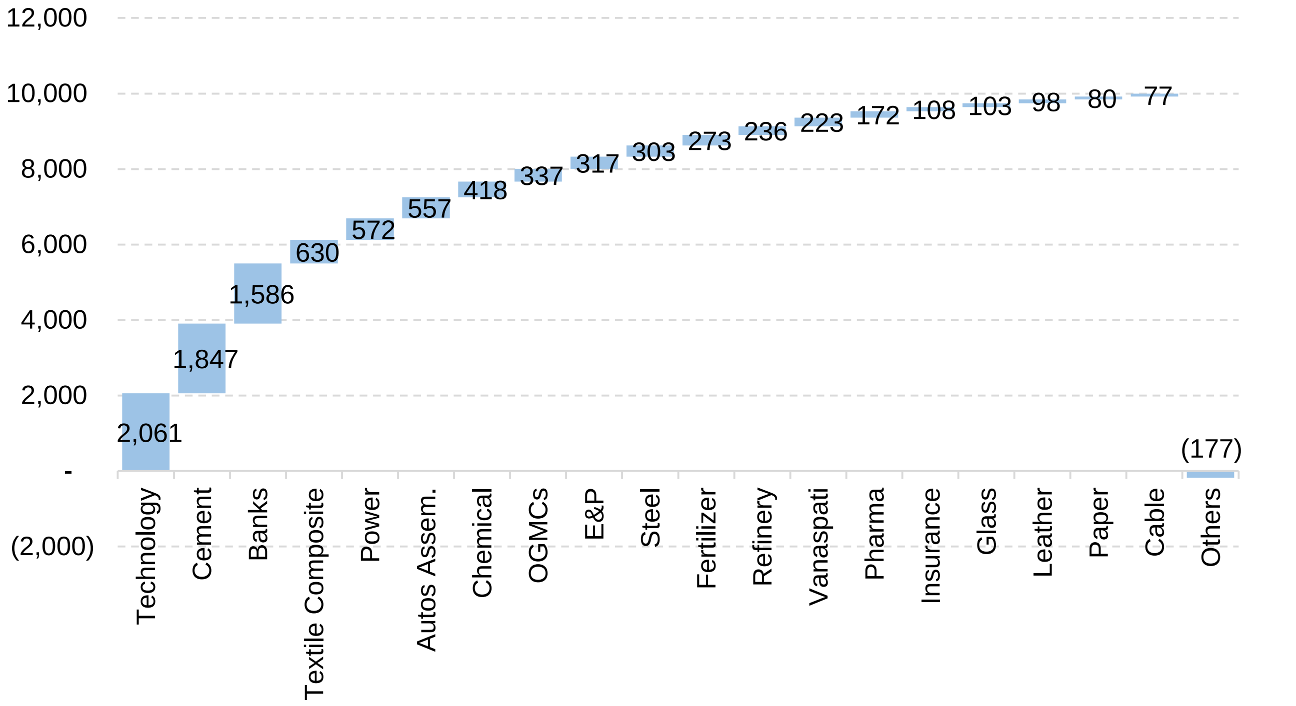
KSE-100 Index Contributions (Graphs)

Exhibit: Sector Wise Index Contribution (3QFY21)



Source (s): Company Financials, AHL Research

Exhibit: Sector Wise Index Contribution (9MFY21)



Source (s): Company Financials, AHL Research

KSE-100 Index Profitability

Pakistan Macros

Exhibit: Pakistan Macros

Table: Pakistan Macros

Pakistan Macros		4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21
Currency and Inflation									
PKR/USD	Average	147.2	157.9	155.5	156.0	163.5	167.0	160.8	158.6
	PKR Dep.	*-5.6%*	*-6.8%*	*1.6%*	*-0.3%*	*-4.6%*	*-6.6%*	*3.9%*	*1.4%*
	Closing	160.1	156.4	154.8	166.7	168.1	165.7	159.8	152.8
	PKR Dep.	*-12.0%*	*2.4%*	*1.0%*	*-7.1%*	*-0.8%*	*0.6%*	*3.7%*	*4.6%*
CPI Inflation	Average*	8.23%	10.09%	12.11%	12.40%	8.45%	8.85%	8.41%	7.80%
	▲bps	*125*	*186*	*202*	*29*	*(395)*	*(355)*	*(44)*	*(61)*
Policy Rate	Average	11.75%	13.25%	13.25%	12.50%	8.00%	7.00%	7.00%	7.00%
	▲bps	*142*	*150*	*-*	*(75)*	*(450)*	*(550)*	*-*	*-*
	Closing	12.25%	13.25%	13.25%	11.00%	7.00%	7.00%	7.00%	7.00%
	▲bps	*150*	*100*	*-*	*(225)*	*(400)*	*(400)*	*-*	*-*
External Sector									
Balance of Payments									
Exports of Goods	USD bn	6.2	6.0	6.4	5.9	4.3	5.4	6.5	6.9
Exports of Goods	▲YoY	*0.3%*	*-3.4%*	*7.0%*	*-8.4%*	*-27.5%*	*-8.8%*	*20.7%*	*6.6%*
Imports of Goods	USD bn	12.6	11.3	12.0	10.8	9.5	10.6	12.6	14.2
Imports of Goods	▲YoY	*6.3%*	*-10.2%*	*6.8%*	*-10.1%*	*-12.1%*	*-1.7%*	*18.1%*	*12.7%*
Trade Balance of Goods	USD bn	(6.4)	(5.3)	(5.6)	(4.9)	(5.3)	(5.3)	(6.1)	(7.3)
Trade Balance of Goods	▲YoY	*12.9%*	*-16.8%*	*6.5%*	*-12.0%*	*6.2%*	*6.7%*	*15.5%*	*19.1%*
Remittances	USD bn	5.7	5.5	5.9	5.6	6.1	7.1	7.1	7.3
Remittances	▲YoY	*13.2%*	*-4.5%*	*8.6%*	*-4.8%*	*8.6%*	*26.7%*	*-1.2%*	*2.9%*
Current Account Balance	USD bn	(3.2)	(1.7)	(1.7)	(0.7)	(0.3)	0.9	0.4	(0.3)
Current Account Balance	% of GDP	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Foreign Exchange Reserves	USD bn	14.5	15.2	17.9	17.1	18.9	19.4	20.5	20.6
Foreign Exchange Reserves	▲YoY	*-16.9%*	*5.2%*	*17.7%*	*-4.6%*	*10.5%*	*13.4%*	*5.8%*	*0.4%*
With SBP	USD bn	7.3	7.9	11.3	10.8	12.1	12.2	13.4	13.5
With Banks	USD bn	7.2	7.3	6.6	6.3	6.8	7.2	7.1	7.1
Foreign Investment									
Foreign Direct Investment	USD bn	0.5	0.5	0.8	0.8	0.4	0.5	0.4	0.5
Foreign Direct Investment	▲YoY	*13.3%*	*19.3%*	*51.4%*	*-5.8%*	*-42.5%*	*-41.2%*	*-7.8%*	*22.1%*
Debt Profile									
External Debt	PKR bn	20,732	22,650	21,676	22,478	23,283	23,702	24,309	24,781
External Debt	% of GDP	*53.8%*	*51.5%*	*49.3%*	*51.1%*	*52.9%*	*52.0%*	*53.3%*	*54.4%*
Domestic Debt	PKR bn	11,055	10,598	10,993	11,658	11,825	11,987	11,952	11,832
External Debt	% of GDP	*28.7%*	*24.1%*	*25.0%*	*26.5%*	*26.9%*	*26.3%*	*26.2%*	*26.0%*
Total Debt	PKR bn	31,787	33,248	32,669	34,136	35,107	35,688	36,261	36,613
Total Debt	% of GDP	*82.4%*	*75.6%*	*74.2%*	*77.6%*	*79.8%*	*78.3%*	*79.6%*	*80.3%*
Fiscal									
Total Revenue	PKR bn	1,317	1,489	1,743	1,458	1,582	1,479	1,872	na
Total Expenditure	PKR bn	2,839	1,775	2,452	2,149	3,272	1,963	2,526	na
Budget Deficit	PKR bn	1,522	286	709	691	1,690	484	654	na
Budget Deficit	% of GDP	*3.9%*	*0.7%*	*1.6%*	*1.5%*	*4.1%*	*1.1%*	*1.4%*	*na*

Source (s): PSX, SBP, PBS, MoF, AHL Research

Commercial Banks

Provisioning Decline Fuels Earnings

- Profitability of the KSE-100 index banking sector posted a 33% YoY / 30% QoQ uptick during 1QCY21. The jump in earnings has primarily come about due to reduced provisioning expenses. During 1QCY20, provisioning for the sector was high primarily owing to substantial charges booked by UBL and NBP. Yearly jump in earnings is also led by strong Net Interest Income and Non-Funded Income.
- Net Interest Income for the sector was up 7% YoY during 1QCY21, while declining 2.5% QoQ. Lag between asset and liability re-pricing provided a major boost to NIMs initially post monetary easing. However 3QCY20 onwards, banking spreads started coming under pressure with asset re-pricing kicking in following the rate cuts, suppressing mark up. Interest expense on a yearly basis is down 40% YoY which helped achieve a jump in NII, while increasing 1.6% QoQ. Spreads of the sector settled at 4.4% as at Mar’21 against 4.5% as at Dec’20. Meanwhile Non-Funded Income has lent crucial support to earnings, rising 12% YoY / 8% QoQ led primarily by healthy capital gains (up 13% YoY / 365% QoQ) majorly on federal government securities, as rate cuts led to revaluation gains. On a yearly basis, banks posted an encouraging jump in fee income (7% YoY) and FX income (53% YoY) led by improved economic activity and volatility in the FX market, respectively.
- Provisioning of the KSE-100 banking sector posted a decline of 61% YoY / 77% QoQ during 1QCY21. The sequential decline in provisioning came primarily on account of an absence of general provisioning this quarter (aggressive general provisions were built throughout last year to absorb potential shocks from NPL accretion post expiry of loan deferral facility). Moreover the improved economic activity across the country helped banks to post reversals as well. The yearly decline in provisioning is mainly due to a high base last year on account of heavy provisioning incurred by UBL and NBP.
- OPEX of the sector posted a decline of 6% YoY / 13% QoQ. Cost/Income came down to 47% during 1QCY21 against 54% SPLY as well as last quarter.
- Notable profitability trends during 1QCY21 included HMB which posted a massive 109% YoY jump followed by HBL (+104% YoY) and NBP (+90% YoY). Quarterly jump during 1QCY21 was led by SCBPL (163%) and FABL(83%) while sequential contraction in earnings was led by ABL (28%) and HMB (13%).

Exhibit: Banking Sector Profitability

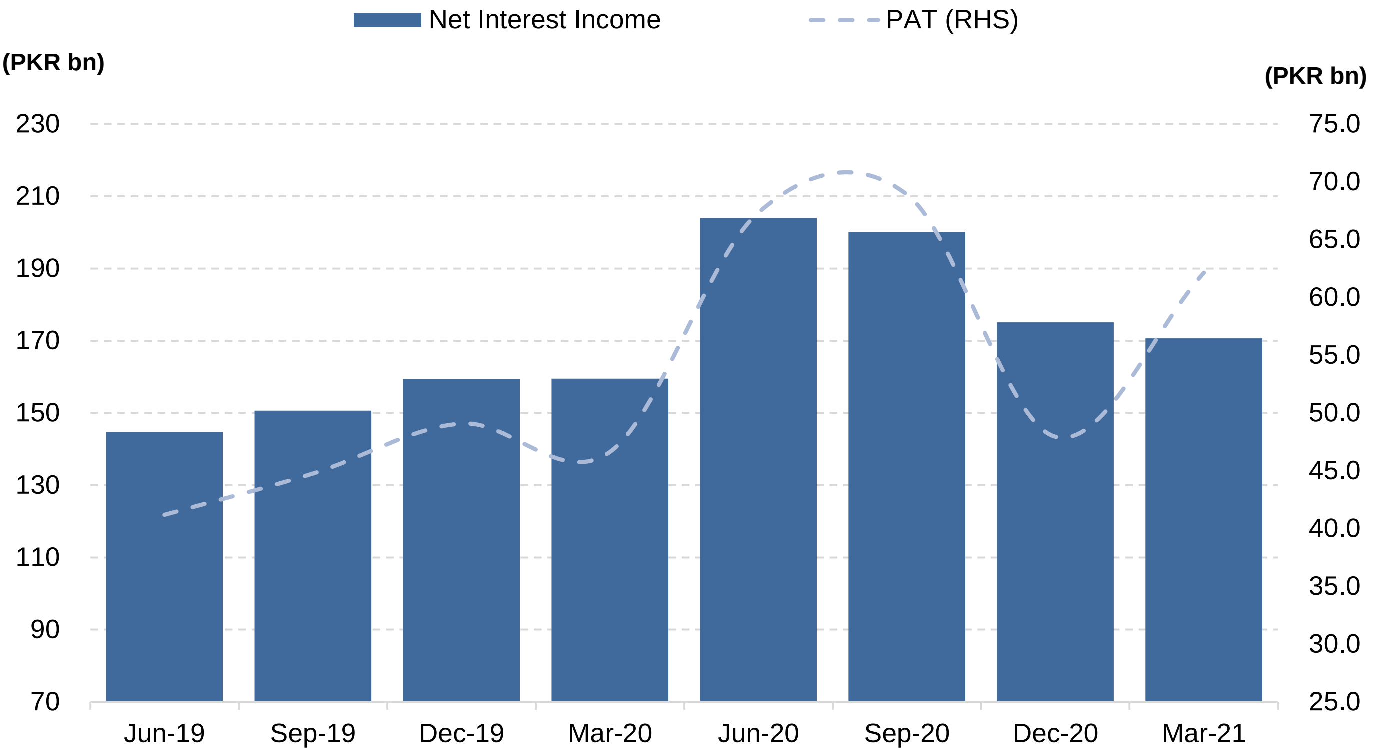
	1QCY21	1QCY20	YoY	4QCY20	QoQ
ABL	4,112	3,890	6%	5,744	-28%
AKBL	2,769	1,864	49%	2,651	4%
BAFL	3,411	2,892	18%	2,176	57%
BAHL	4,629	2,841	63%	4,715	-2%
BOP	1,816	1,481	23%	1,095	66%
FABL	2,115	2,055	3%	1,158	83%
HBL	8,336	4,096	104%	5,700	46%
HMB	3,245	1,553	109%	3,732	-13%
MCB	7,012	6,624	6%	6,003	17%
MEBL	6,050	5,024	20%	4,102	47%
NBP	7,815	4,120	90%	4,369	79%
SCBPL	3,219	5,308	-39%	1,225	163%
UBL	7,599	4,878	56%	5,271	44%
Total	**62,128**	**46,627**	**33%**	**47,942**	**30%**

Source (s): Company Financial, AHL Research

Commercial Banks

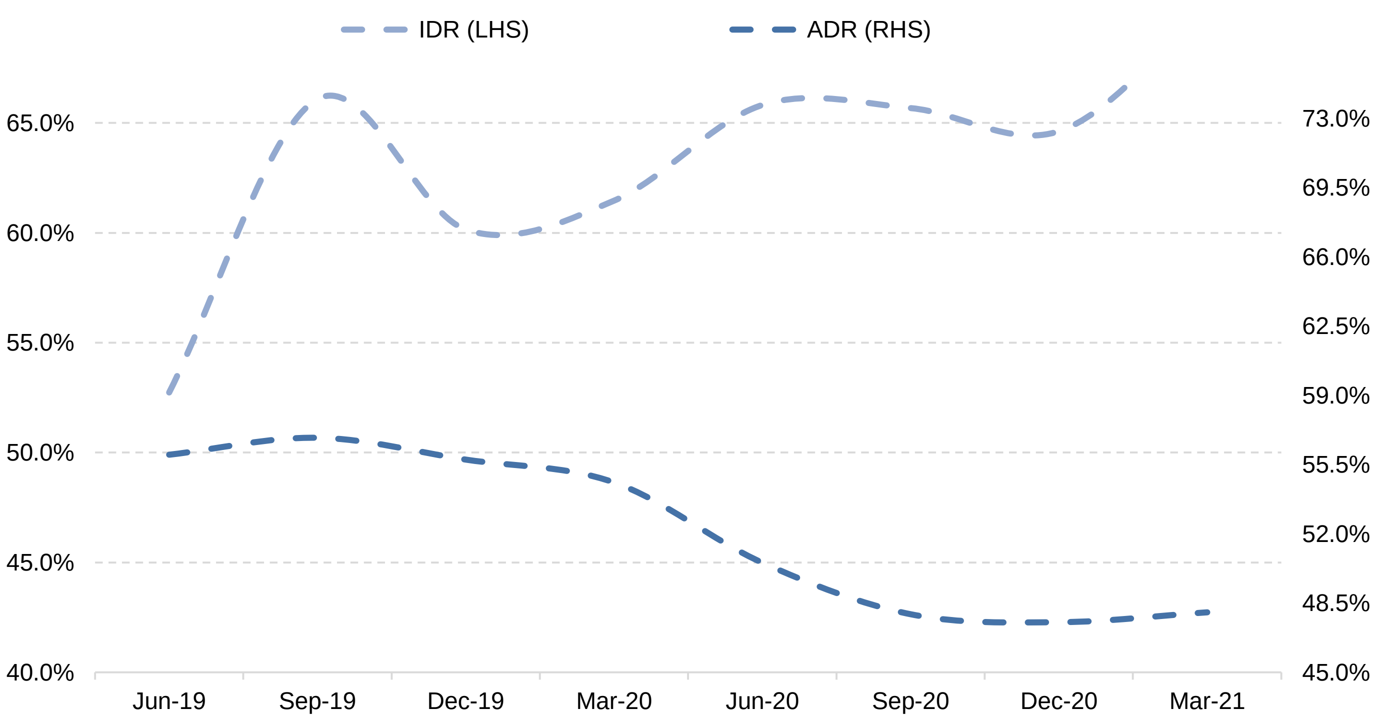
Provisioning Decline Fuels Earnings

Exhibit: Historical Net Interest Income and PAT of Banking Sector



Source (s): Company Financials, AHL Research

Exhibit: Banking Industry IDR and ADR

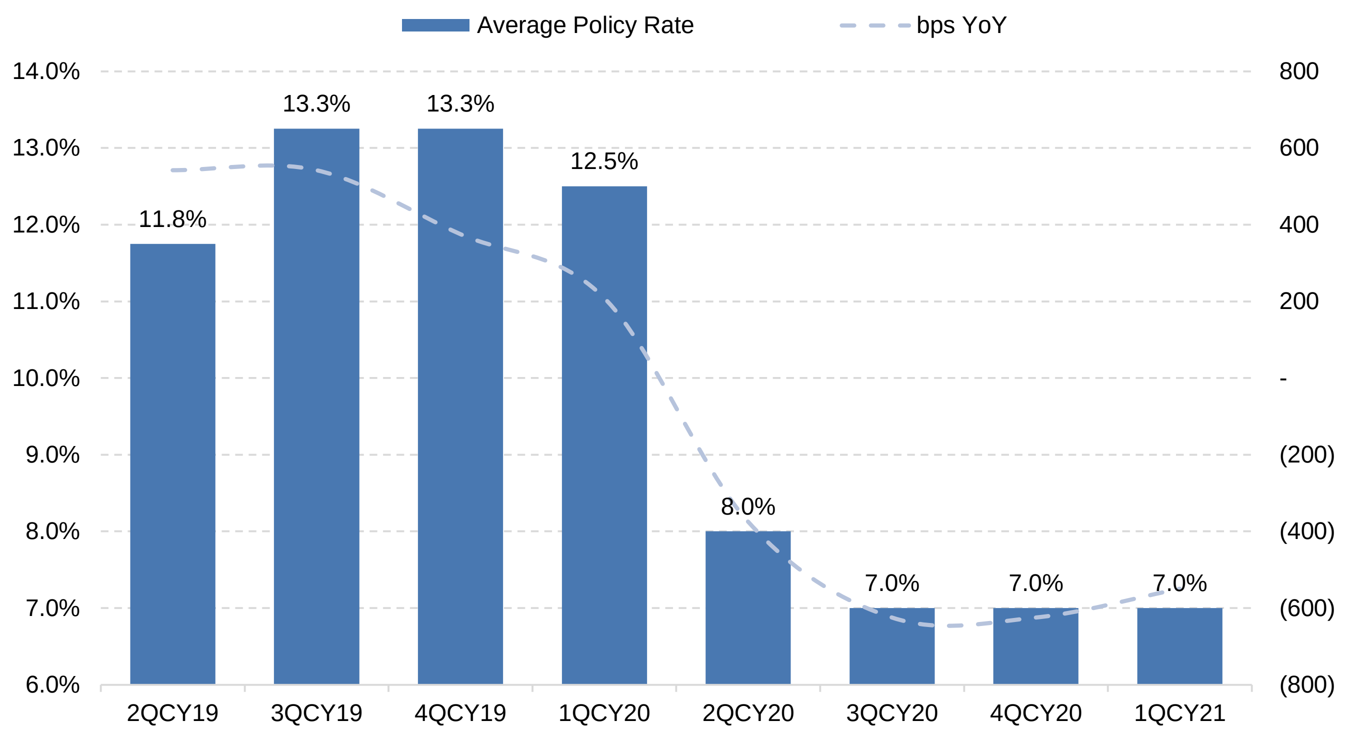


Source (s): SBP, AHL Research

Commercial Banks

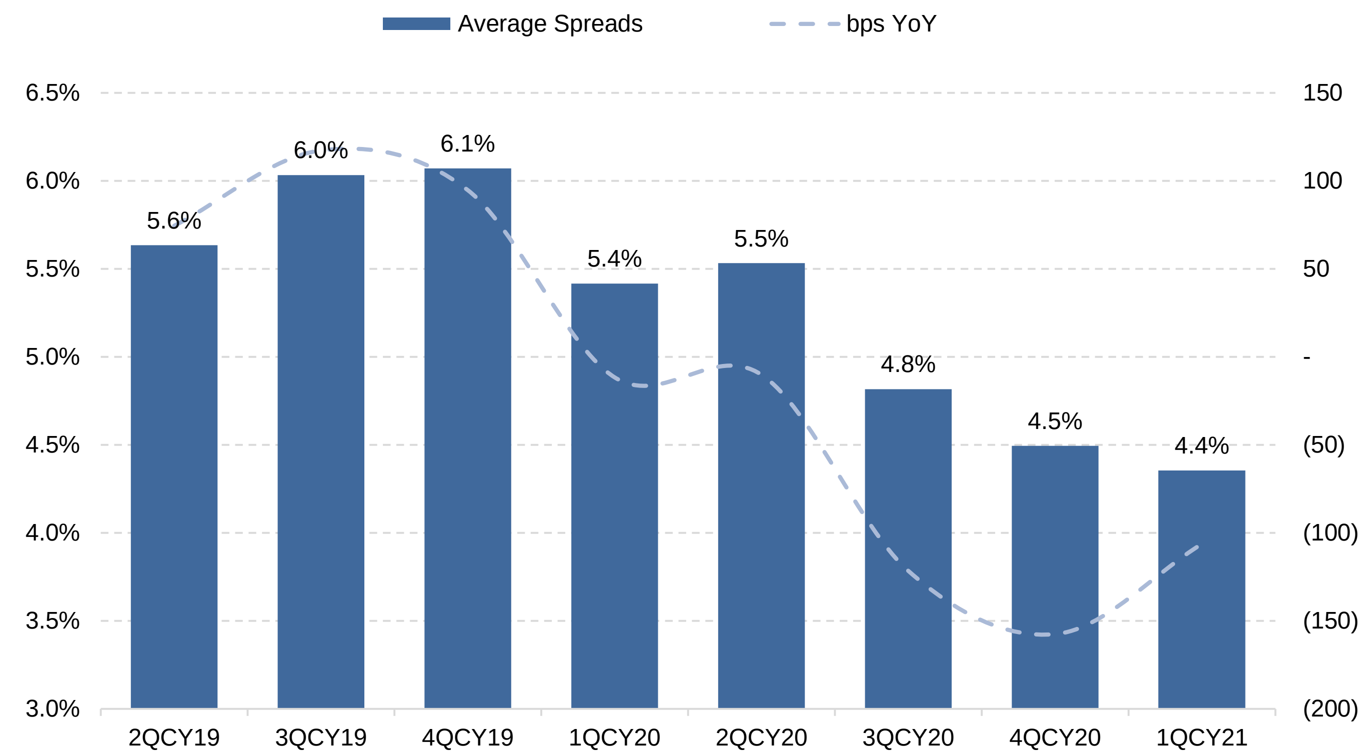
Provisioning Decline Fuels Earnings

Exhibit: Discount Rate Trend



Source (s): SBP, AHL Research

Exhibit: Banking Sector Spreads



Source (s): SBP, AHL Research

Fertilizer

Bottom-line Surges by a Massive 291% YoY

- Fertilizer sector's profitability during 1QCY21 depicted a hefty jump of 291% YoY at PKR 16,596mn. Meanwhile, on QoQ basis, the sector's earning dropped by 19%.
- The sector's net sales portrayed a 55% YoY growth during 1QCY21, which is attributable to 36% and 49% YoY surge in urea and DAP offtake, respectively.
- Sector gross margins improved to 37% during 1QCY21 compared to 36% in 1QCY20. The ascend in gross margins came on the back of improveed urea prices and margin tagged better DAP margins.
- FFC's bottom-line jumped up by 36% YoY in 1QCY21 to settle at PKR 5,815mn compared to PKR 4,262mn in SPLY. Topline witnessed an uptick of 5% clocking-in at PKR 21,589mn owed to surge of 85% YoY in DAP offtake followed by 35% YoY growth in DAP prices. Whereas, urea offtake depicted a drop of 2% YoY along with tumble in urea prices by 5% YoY. The company's other income climbed up by 58% YoY, arriving at PKR 2,719mn amid higher dividend income from Askari Bank Ltd. Furthermore, financial charges reduced by 38% YoY in 1QCY21 on the back of lower interest rates. Meanwhile, on QoQ basis, the net profit decreased by 18%, owing to descend in urea and DAP offtake by 15% and 71%, respectively tagged with absence of gain on extinguishment of original GIDC liability.
- EFERT's earnings showcased a hefty ascend of 10.1x YoY, clocking-in at PKR 5,741mn during 1QCY21 in contrast to PKR 571mn in SPLY. Net Sales portrayed a huge jump of 173% YoY, reaching PKR 29,444mn in 1QCY21 given significant surge in urea and DAP offtake by 3.5x and 82% YoY, respectively tagged with 35% YoY increase in DAP prices. Gross margins reached 39.25% (up by 557bps), which is attributable to higher urea offtakes. Moreover, other income grew by 83% YoY on the back of rise in income from cash and cash balances. Furthermore, finance cost plummeted by 78% YoY on account of fall in interest rates. However, on QoQ basis, the profitability witnessed a drop of 14% given absence of gain on provision for GIDC followed by 27% drop in DAP offtake.

Exhibit: Fertilizer Sector Profitability

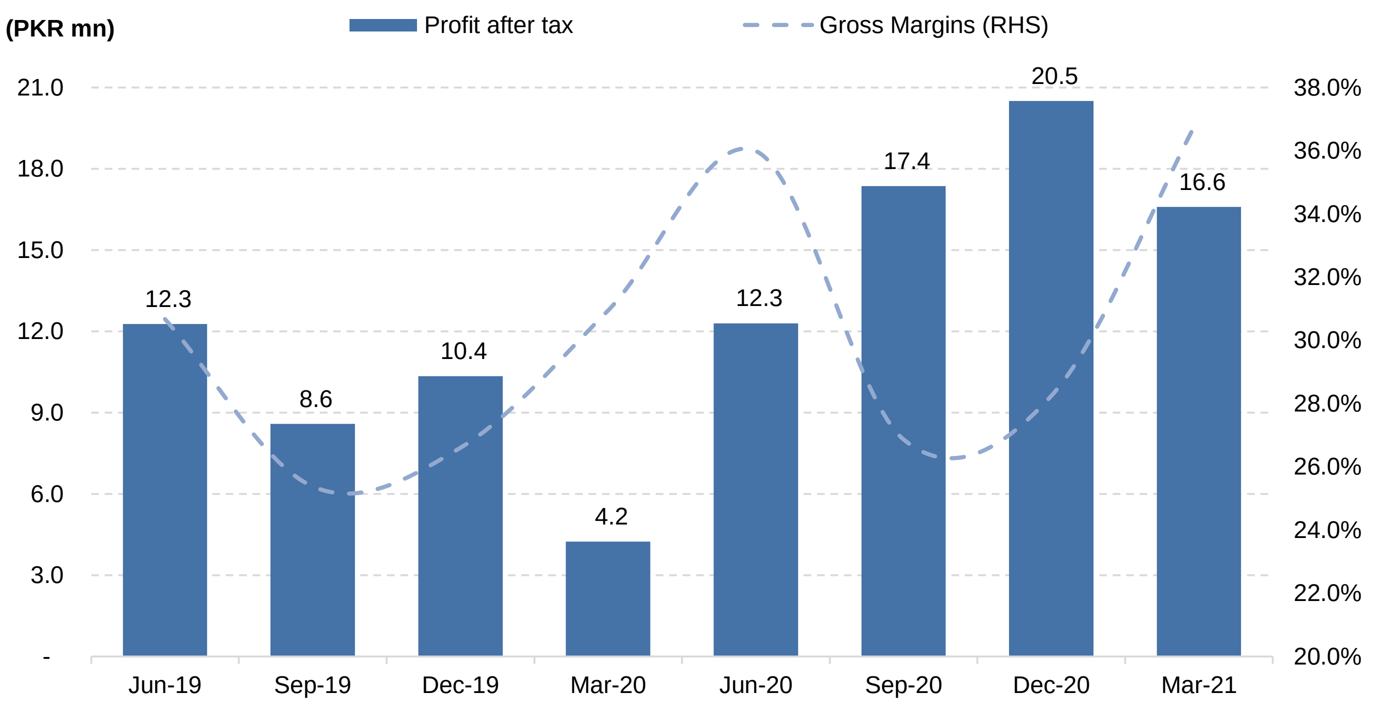
PKR mn	1QCY21	1QCY20	YoY	4QCY20	QoQ
EFERT	5,741	571	906%	6,643	-14%
ENGRO	8,337	3,317	151%	6,755	23%
FATIMA	3,773	2,459	53%	3,712	2%
FFBL	1,266	(3,048)	nm	3,094	-59%
FFC	5,815	4,262	36%	7,055	-18%
Total	**24,932**	**7,561**	**230%**	**27,259**	**-9%**
Total*	**16,596**	**4,244**	**291.0%**	**20,504**	**-19%**

Source (s): Company Financials, AHL Research, * Ex. ENGRO

Fertilizer

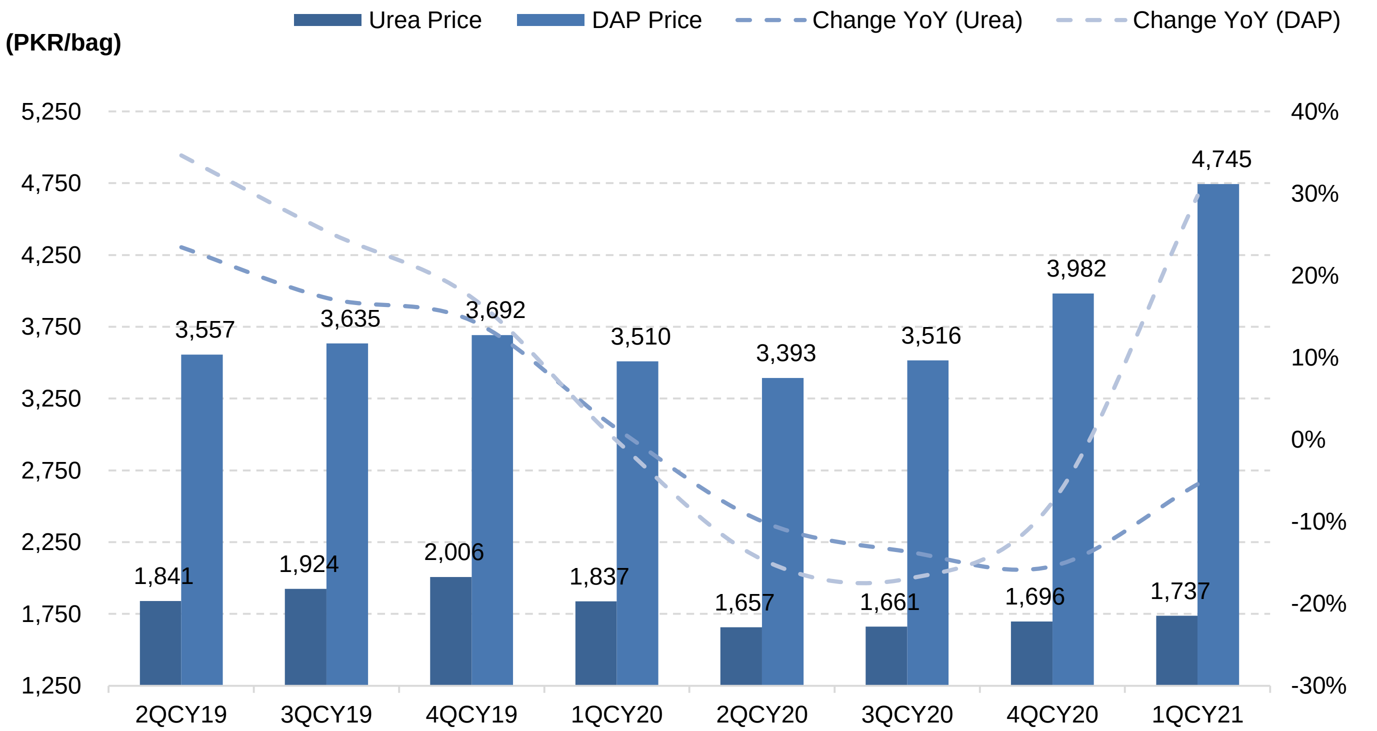
Bottom-line Surges by a Massive 291% YoY

Exhibit: Historical Profitability and GMs of Fertilizer Sector



Source (s): Company Financials, AHL Research

Exhibit: Urea and DAP Prices Trend

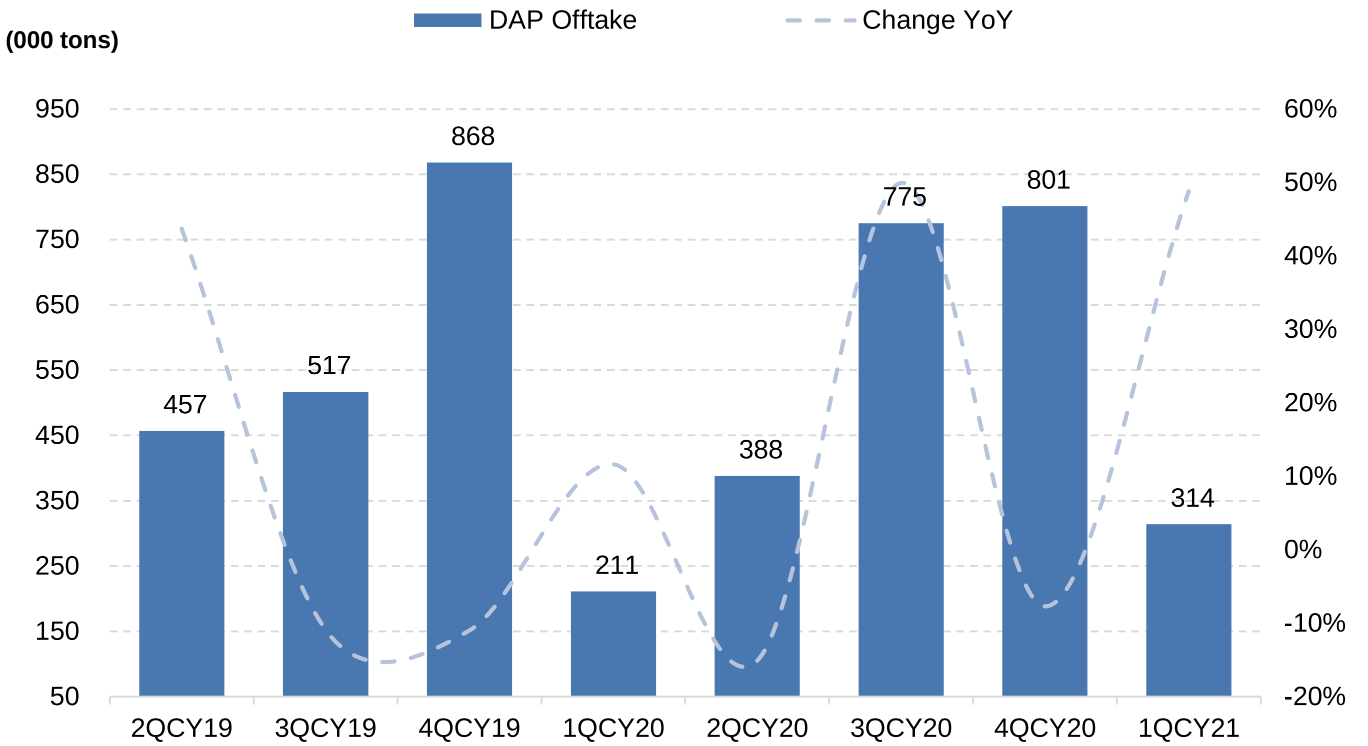


Source (s): NFDC, AHL Research

Fertilizer

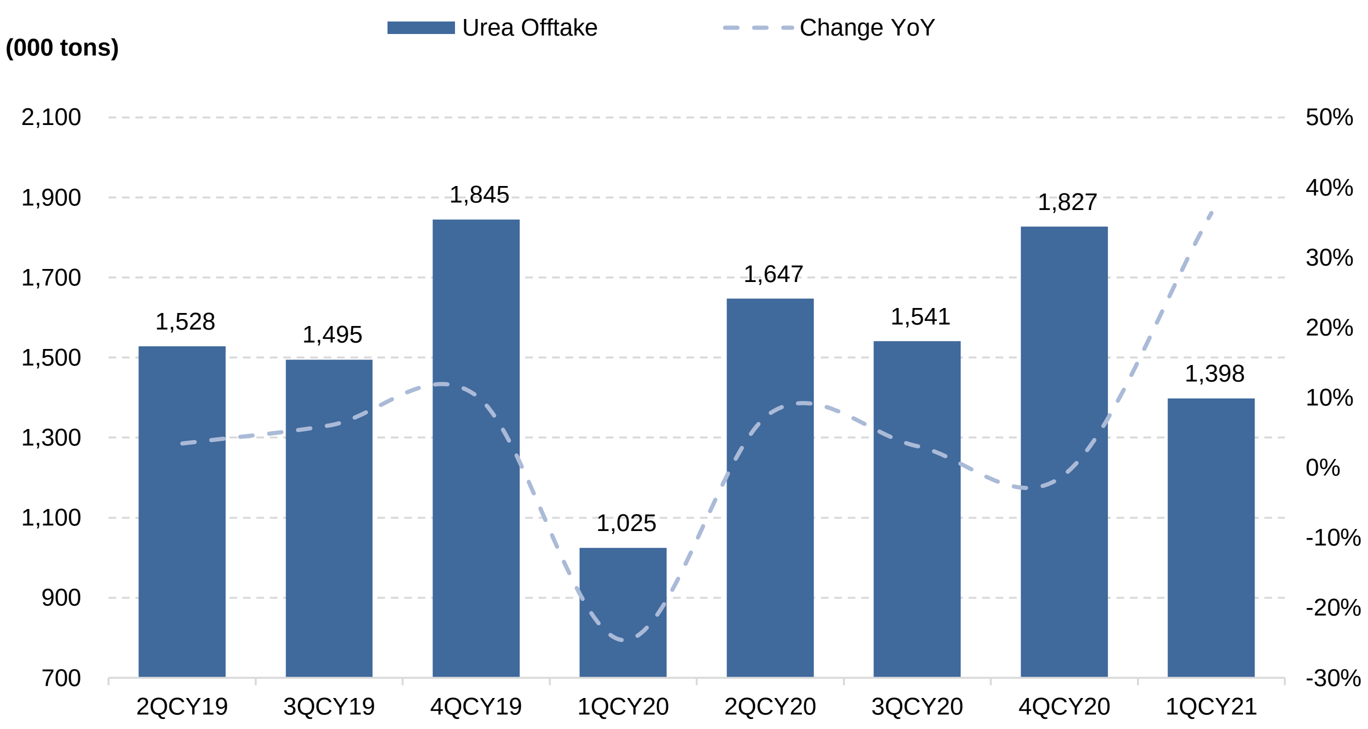
Bottom-line Surges by a Massive 291% YoY

Exhibit: DAP Off-take increased by 49% YoY during 1QCY21



Source (s): NFDC, AHL Research

Exhibit: Urea Off-take registered an increase of 36% YoY during 1QCY21



Source (s): NFDC, AHL Research

Cements

Strong Recovery, One for the Books

- Profitability of the KSE-100 index cement sector arrived at PKR 14,981mn in 3QFY21 against a loss of PKR 2,154mn in SPLY. The stunning turnaround in earnings was owed to strong demand, recovery in prices and lower coal prices.
- Revenue growth of the sector settled at 37% YoY to PKR 175bn in 3QFY21 attributable to a sharp recovery in retention prices (price hike in North coupled with cut in FED), alongside a 21% YoY jump in total offtake to 14.6mn tons (local dispatches depicted a growth of 26% YoY to 12.6mn tons amid boom in construction and low interest rate environment, while exports fell by 3% YoY to 2.0mn tons given third wave world over as well as dip in exports to Sri Lanka given amendments in their FX regime).
- As a result of rebound in retention prices, volumetric growth and soft coal prices, sector-wide gross margins depicted a drastic accretion of 19ppts YoY to 24.6% during the period under review (3QFY20: 6.1%).
- DGKC and MLCF remained clear outliers with both the players managing to turn around losses to a profit. DGKC's revenue displayed an uptick of 12% YoY to PKR 10.9bn in lieu of a significant improvement in retention prices (cut in FED together with pricing restoration in North) which offset the impact of volumetric decline (-10% YoY to 1,595k tons). Together with lower coal prices, gross margins in 3QFY21 expanded to 22.8% (3QFY20: 0.6%). Pertinently, a major boost to DGKC's bottom-line came from a 3x growth in other income given recognition of dividend income from MCB (PKR 15/share). Similarly, MLCF's topline exhibited a robust jump of 37% YoY during 3QFY21 led by strong turnaround in retention prices which offset the impact of a minor 4% decline in total offtake (1,246k tons vs. 1,296k tons). Consequently, margins underwent a jump from 1.3% in 3QFY20 to 26.8% in 3QFY21. Also noteworthy was a 56% YoY decline in finance cost owed to lower interest rates.
- Meanwhile LUCK (unconsolidated) posted its highest ever quarterly profitability at PKR 7.1bn, undergoing a surge of 7x YoY in 3QFY21. Not only were company margins of 35.9% at a 13-quarter high, supported by 23% YoY growth in total dispatches to 2,609k tons, significant turnaround in retention and soft coal prices, bottom-line was also aided by a massive jump in other income (led by recognition of dividend income - PKR 1.02bn from ICI, PKR 0.06bn from Younus Energy and PKR 2.85bn from Lucky Motors Corporation).
- On a QoQ basis, gross margins of the sector observed an improvement of 417bps to 29.0% (2QFY21: 24.8%) aided by improvement in retention prices and PKR appreciation which counterbalanced the impact of 3% dip in offtake and higher coal prices.

Exhibit: Cement Sector Profitability

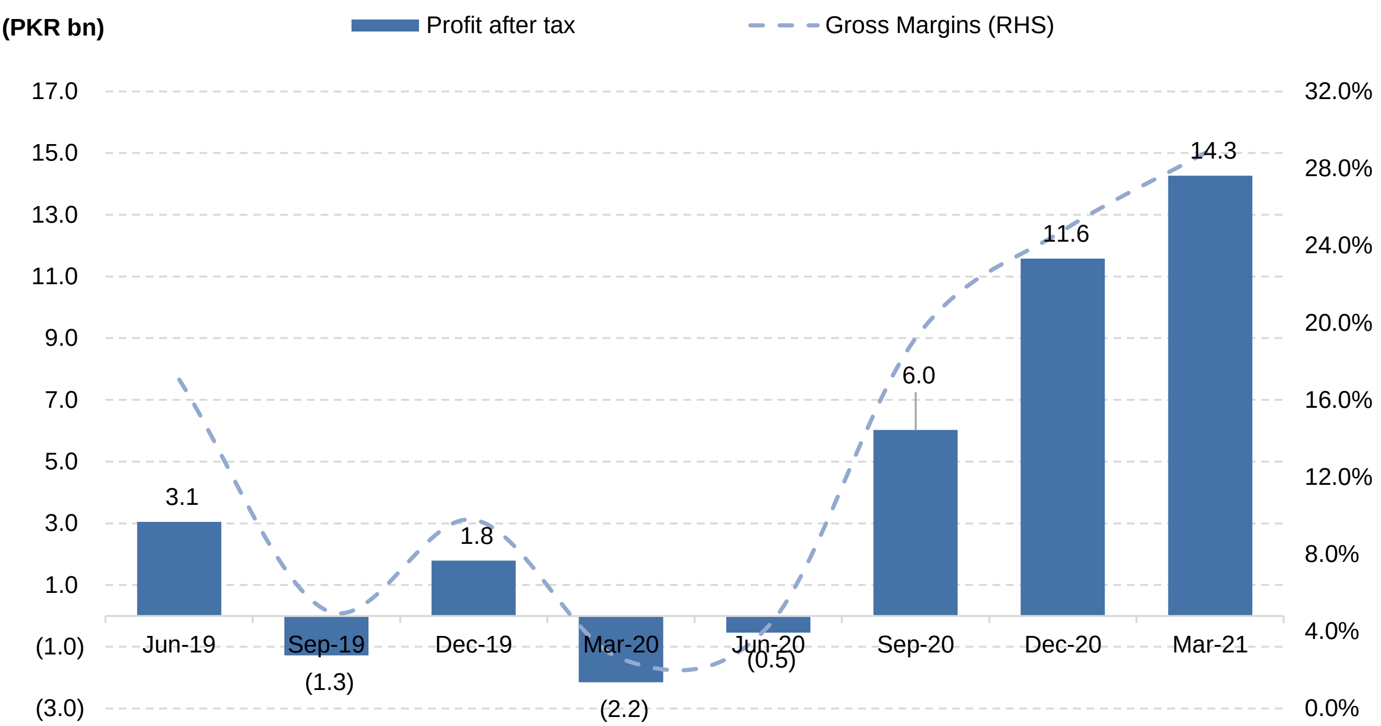
PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
CHCC	2,222	(1,187)	nm	1,094	(627)	nm	820	33%
DGKC	2,848	(1,850)	nm	2,048	(1,003)	nm	1,152	78%
FCCL	2,611	272	9.6x	1,010	(210)	nm	905	12%
KOHC	2,532	(283)	nm	1,059	(381)	nm	965	10%
LUCK*	18,226	4,651	3.9x	7,861	1,439	5.5x	6,016	31%
MLCF*	2,849	(2,727)	nm	1,223	(960)	nm	1,070	14%
PIOC	1,293	(523)	nm	687	(412)	nm	646	6%
Total	**32,581**	**(1,648)**	**nm**	**14,981**	**(2,154)**	**nm**	**11,574**	**29%**

Source (s): Company Financials, AHL Research, *Consolidated

Cements

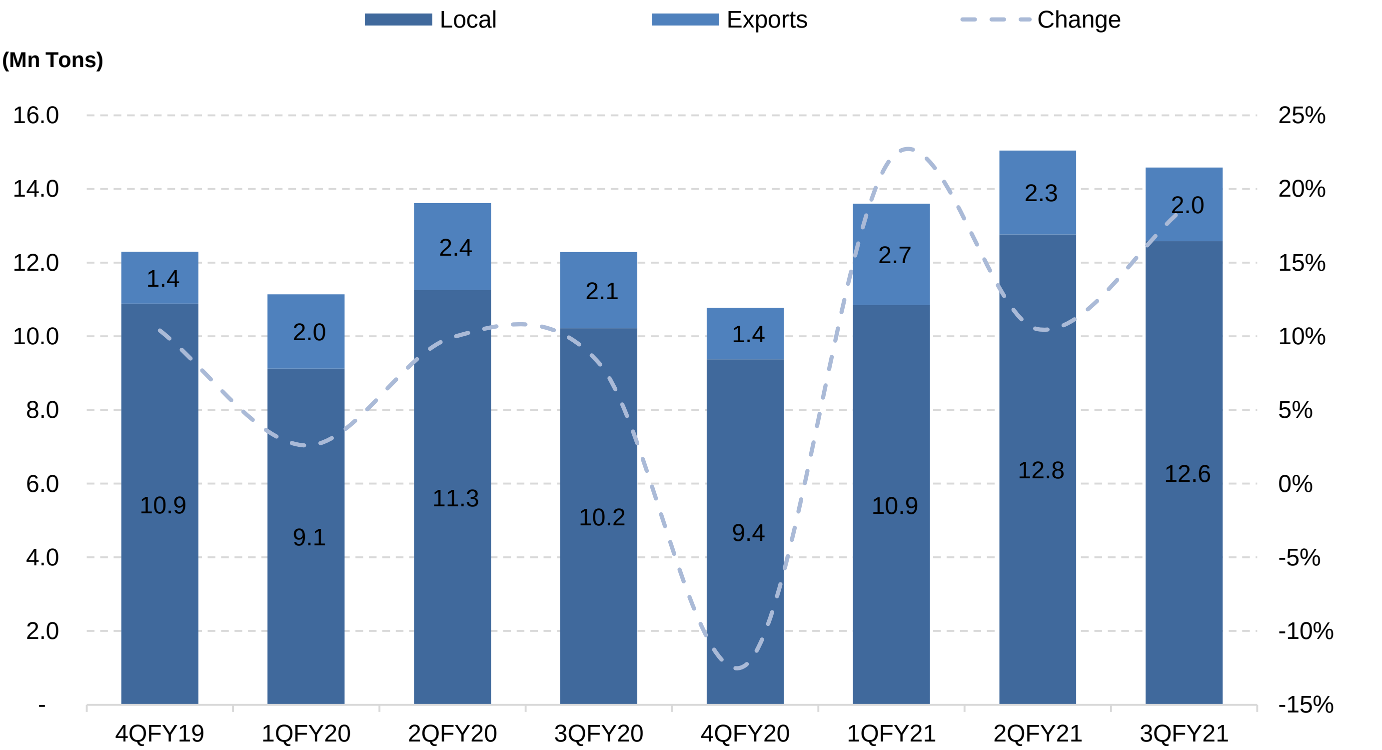
Strong Recovery, One for the Books

Exhibit: Historical Profitability and GMs of Cement Sector



Source (s): Company Financials, AHL Research

Exhibit: Industry Cement Dispatches

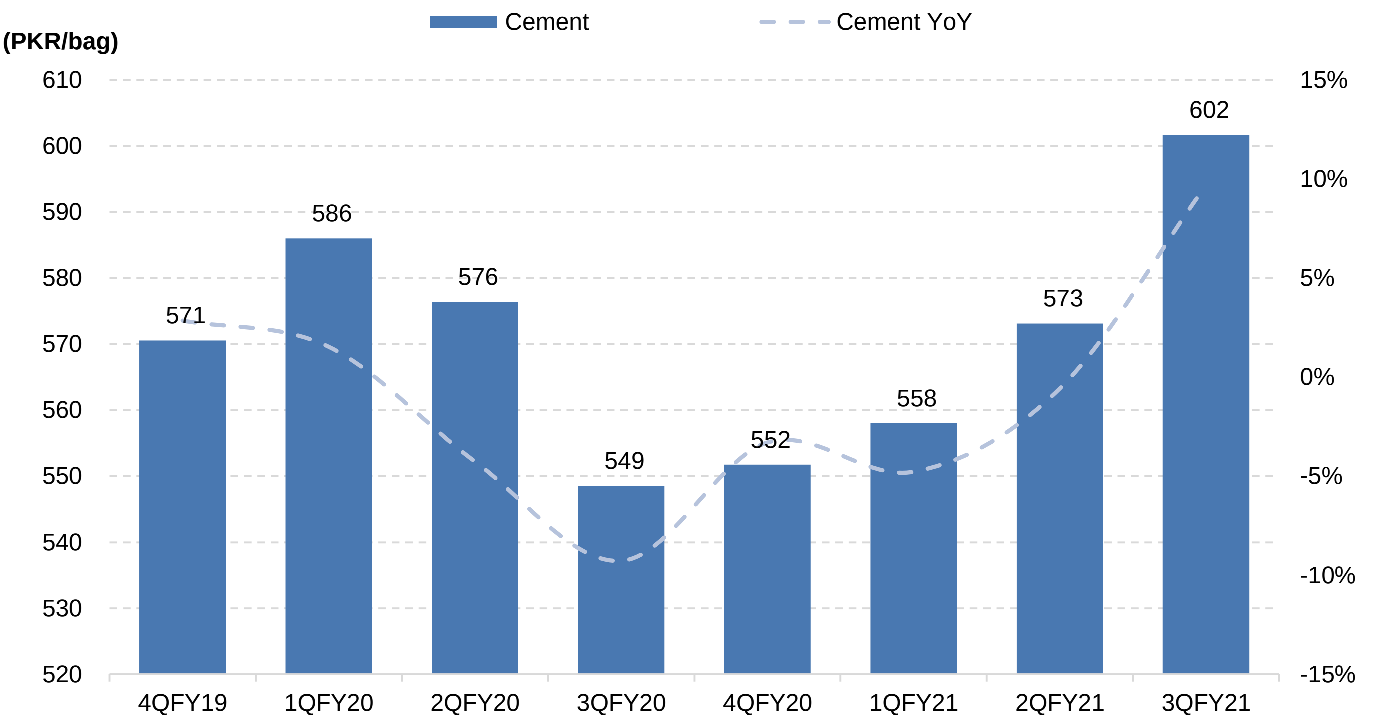


Source (s): APCMA, AHL Research

Cements

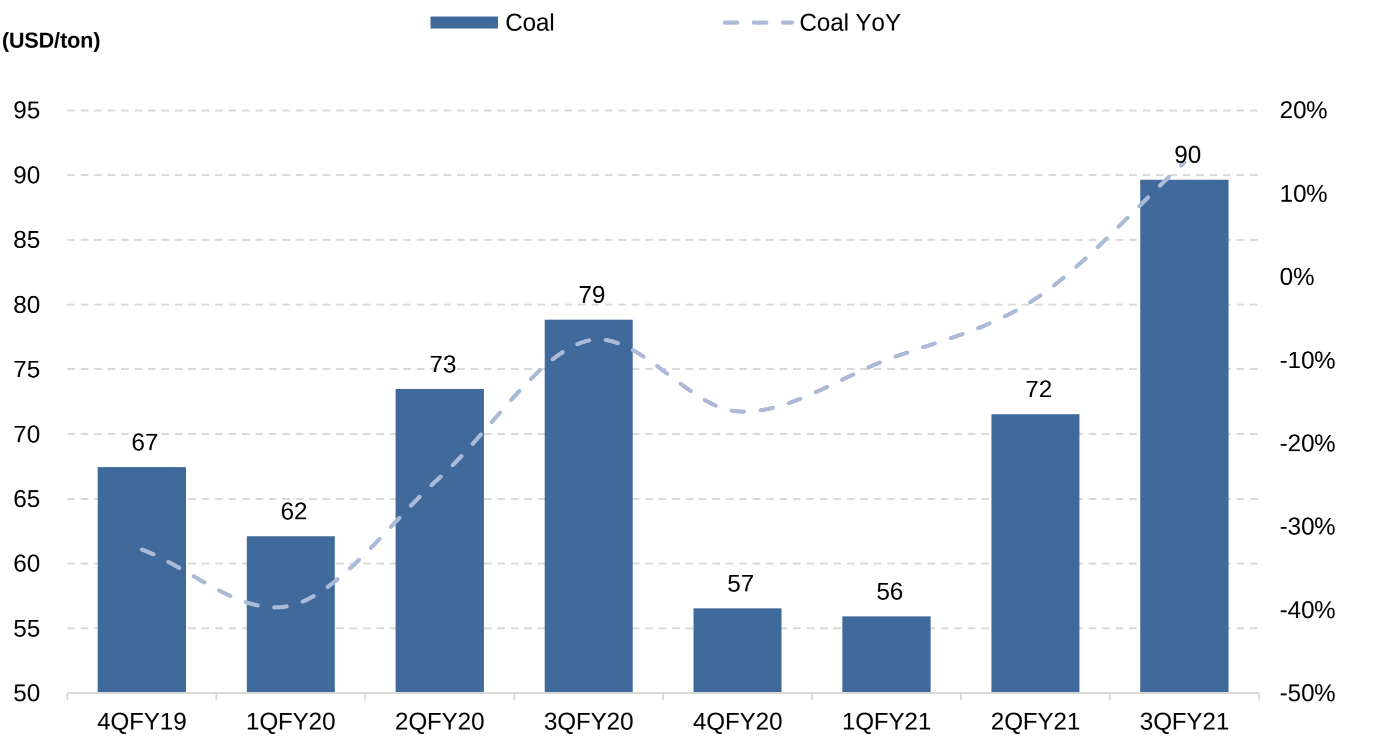
Strong Recovery, One for the Books

Exhibit: Average Cement Prices increased by 10% YoY in 3QFY21



Source (s): PBS, AHL Research

Exhibit: Average Coal Prices increased by 14% YoY during 3QFY21



Source (s): Bloomberg, AHL Research

Exploration and Production

Earnings rescind by 22% YoY in 3QFY21

- Sector earnings plunge by 22% YoY to PKR 46bn in 3QFY21 due to a drop in oil and gas production (AHL universe) by 2% and 6% YoY, respectively. Whereas overall country's oil and gas production portrayed a fall of 7% YoY, each in 3QFY21. Meanwhile, oil prices jumped by 12% YoY in 3QFY21. Earnings of MARI, PPL, OGDC and POL witnessed a decline of 18%, 19%, 20% and 46% YoY, respectively in the quarter.
- OGDC's bottom-line plummeted by 20% YoY in 3QFY21, clocking-in at PKR 24.1bn (EPS: PKR 5.61) compared to PKR 30.0bn (EPS: PKR 6.98) in 3QFY20. Topline depicted an uptick of 5% YoY, arriving at PKR 65.4bn amid higher oil prices. However, oil and gas production decreased by 2% and 9% YoY, respectively. Furthermore, exploration costs arrived at PKR 5.6bn during the quarter, up significantly by 82% YoY, given two dry wells (Nangphir-01 and Qadirpur X-01) incurred during 3QFY21 along with higher seismic activity. Besides this, other income showed a hefty descend of 85% YoY in 3QFY21 owed to loss on exchange on foreign currency account along with fall in interest income from investments, bank deposits.
- PPL's earnings arrived at PKR 11.8bn (EPS: PKR 4.37) in 3QFY21 against PKR 14.7bn (EPS: PKR 5.40) in 3QFY20, plummeting by 19% YoY. Net Sales tumbled by 10% YoY, settling at PKR 36.7bn in 3QFY21 in contrast to PKR 40.8bn in SPLY. The slope in sales is comes on the back of i) decline in oil and gas production by 1% and 9% YoY, respectively and ii) fall in wellhead price of Sui by 18% YoY. While, the exploration expenses reduced by 77% YoY in 3QFY21 given one dry well (Qadirpur X-01) incurred during the quarter against two dry wells in SPLY. Whereas, other income plunged by 36% YoY in 3QFY21 on the back of fall in income from loans and bank deposits owed to lower interest rates followed by absence of exchange gain.
- POL posted a profit after tax of PKR 2.9bn (EPS: PKR 10.32) in 3QFY21 versus PKR 5.4bn (EPS: PKR 18.95) in 3QFY20, depicting a slump of 46% YoY. Revenue came out to be PKR 9.5bn during 3QFY21, a dip by 8% YoY attributable to 8% and 13% decrease in oil and gas production, respectively. On the other hand, exploration cost portrayed decline of 80% YoY in 3QFY21 on account of fall geological and geophysical cost. In addition to this, the company recorded other expense of PKR 372mn in 3QFY21 against other income of PKR 5,379mn owed to higher exchange loss on financial assets alongside rescind in income from bank deposits and investments.
- MARI's profitability portrayed a plunge of 18% YoY in 3QFY21, settling at PKR 6.9bn (EPS: PKR 52.14) during 3QFY21 vis-à-vis PKR 8.5bn (EPS: PKR 63.54) in SPLY. Net sales declined by 15% YoY, arriving at PKR 16.1bn compared to PKR 19.0bn in SPLY given drop in wellhead price of Mari gas field by 13% YoY. While, oil and gas jumped up by 19% and 2% YoY, respectively. Moreover, the other income reduced by 98% YoY, arriving at PKR 5mn in 3QFY21 on the back of absence of income from seismic, drilling and processing units. Whereas, exploration cost nosedived by 57% YoY due to decline in prospecting expenditures. Additionally, finance income plummeted by 37% YoY, given fall interest income from bank deposits and short term investments.

Exhibit: Exploration and Production Sector Profitability

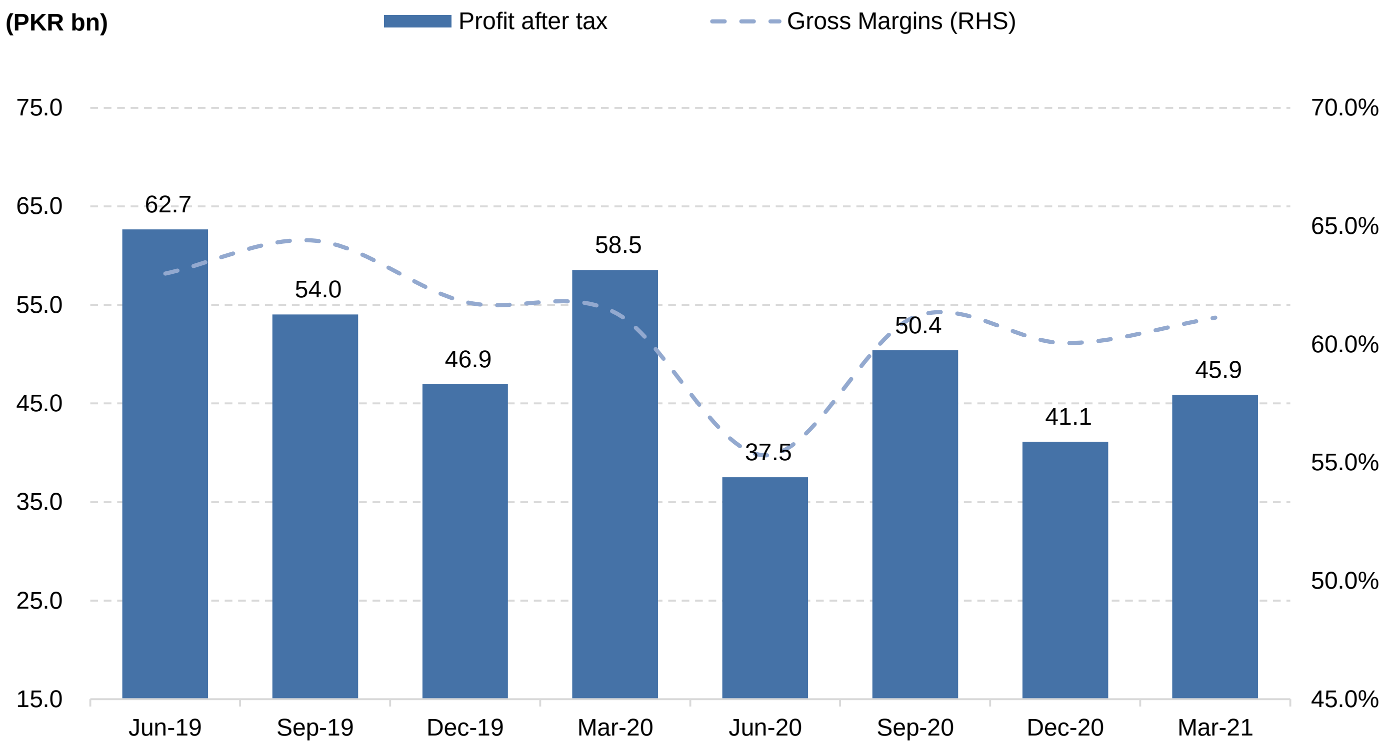
PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
MARI	23,356	23,225	1%	6,955	8,477	-18%	7,335	-5%
OGDC	66,346	83,122	-20%	24,121	30,011	-20%	18,882	28%
POL	9,576	13,947	-31%	2,927	5,379	-46%	3,021	-3%
PPL	38,118	39,229	-3%	11,881	14,674	-19%	11,886	0%
Total	**137,396**	**159,523**	**-14%**	**45,883**	**58,541**	**-22%**	**41,123**	**12%**

Source (s): Company Financial, AHL Research

Exploration and Production

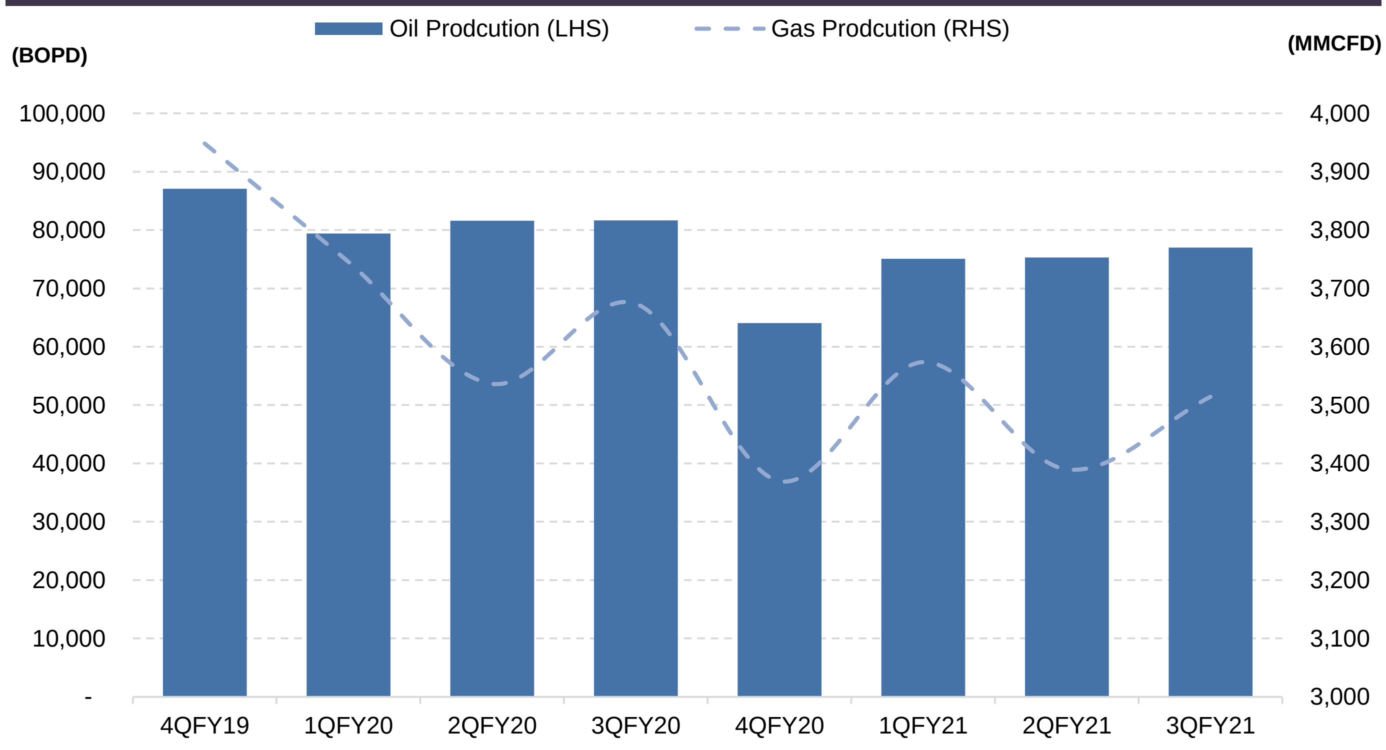
Earnings rescind by 22% YoY in 3QFY21

Exhibit: Historical Profitability and GMs of E&P Sector



Source (s): Company Financials, AHL Research

Exhibit: Pakistan's Oil and Gas Production

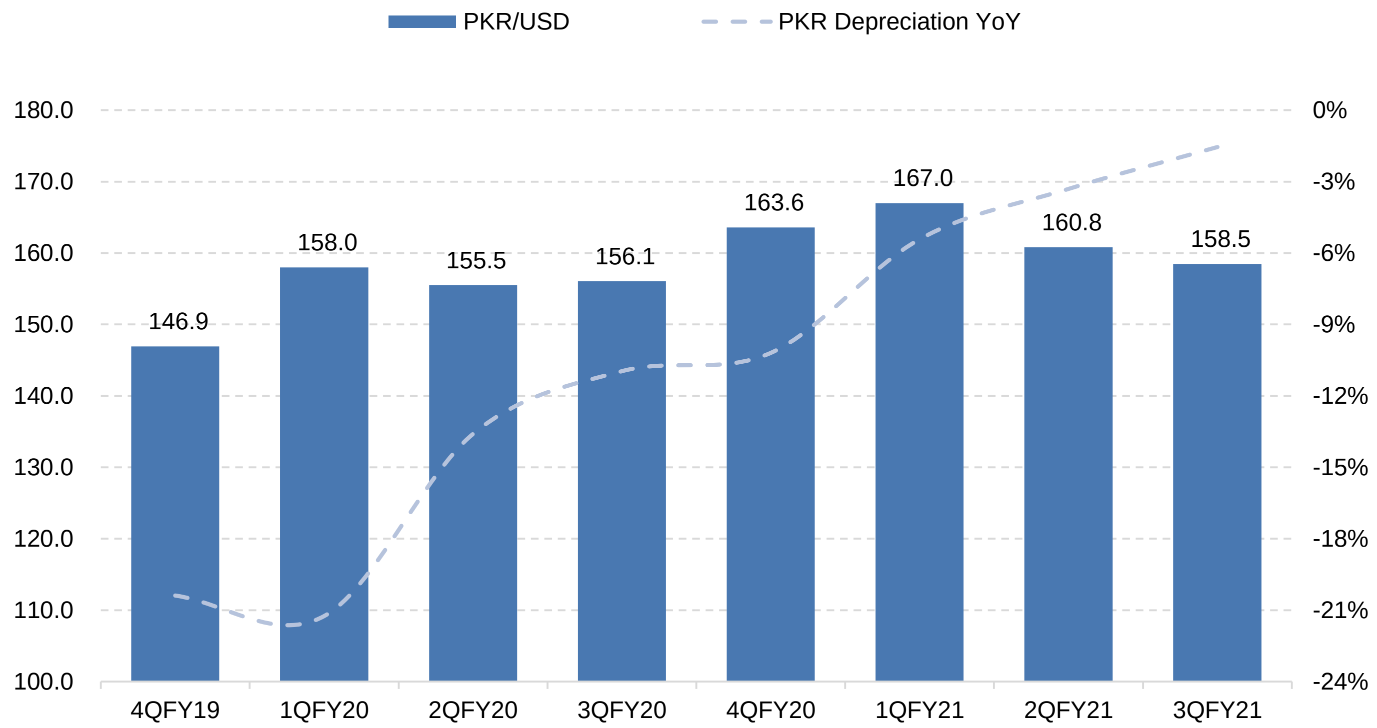


Source (s): PPIS, AHL Research

Exploration and Production

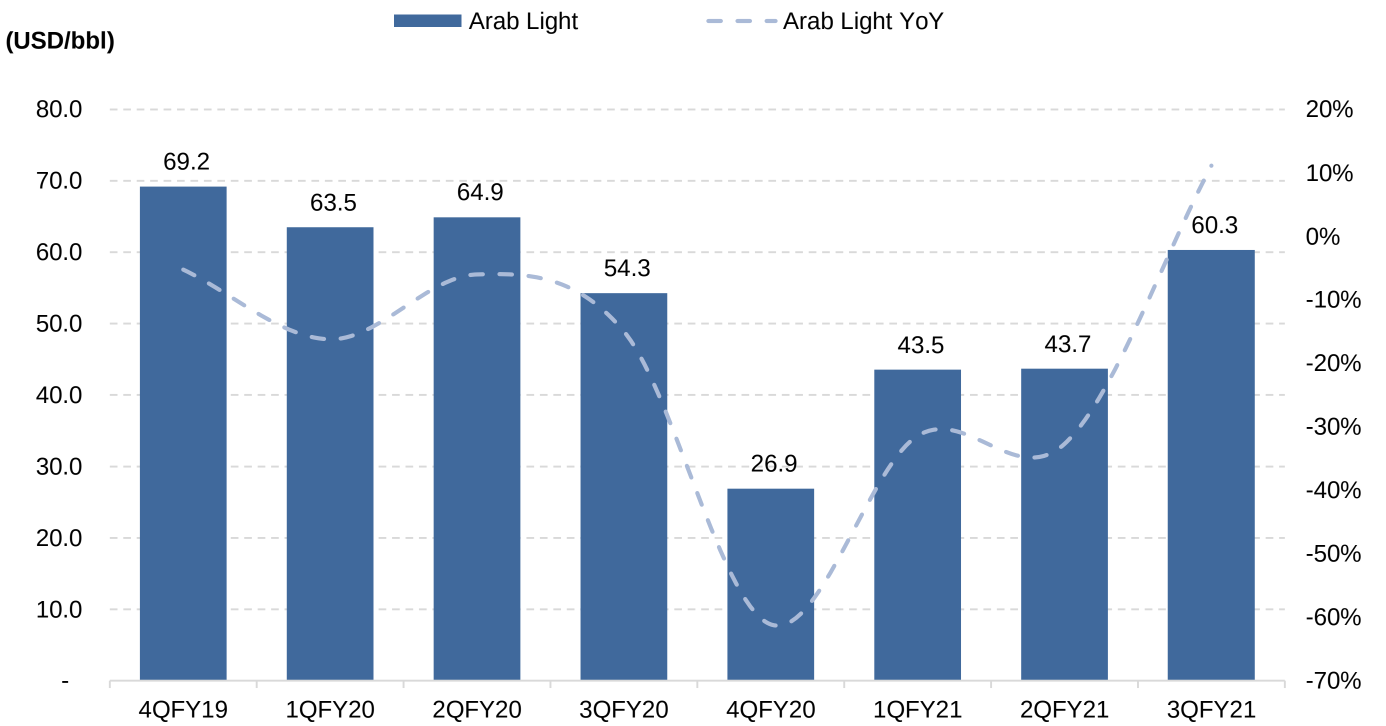
Earnings rescind by 22% YoY in 3QFY21

Exhibit: 2% YoY PKR depreciation during 3QFY21



Source (s): SBP, AHL Research

Exhibit: Oil Prices up by 11% YoY during 3QFY21



Source (s): Bloomberg, AHL Research

Power Generation and Distribution

Profitability up by 11% YoY during 3QFY21

- Profitability of the Power sector jumped up by 11% YoY to PKR 16.6bn during 3QFY21. On a QoQ basis, it went down by 19%. The rise in profitability was witnessed due to recognition of profit higher dollar indexation, lower finance cost and higher other income. Net sales of the sector during 3QFY21 witnessed an increase of 12% YoY due to 24% YoY rise in dispatches to 2,455 GWh (HUCB, KAPCO and KEL) compared to 1,975 GWh during the same period last year.
- HUBC: During 3QFY21 the company posted a profit after tax (PAT) of PKR 8,576mn (EPS: PKR 6.61), up by 19% YoY compared to PKR 7,201mn (EPS: PKR 5.55) during 3QFY20. This takes 9MFY21 PAT to PKR 24,918mn (EPS: PKR 19.21) compared with PAT of PKR 18,253mn (EPS: PKR 14.07) during same period last year. The rise in earnings is due to 3% YoY PKR deprecation and lower finance cost. During 3QFY21, net sales witnessed an increase of 2% YoY to PKR 12,023mn due to a 13% YoY increase in dispatches to 187 GWh (Hub Plant: 0GWh, Narowal Plant: 91GWh, 20% Load Factor; Laraib: 96GWh, 53% Load Factor). During 9MFY21, sales also increased by 6% YoY, again due to higher dispatches (+20% YoY) compared with last year. During 3QFY21, gross margins of the company increased by 4pps YoY to 68%. The rise in margins is mainly attributable to 3% YoY PKR depreciation during 3QFY21. During 3QFY21, the company recognized share of profit from CPHGC of PKR 4,078mn (PKR 3.14/share), up by 7% YoY mainly due to 3% YoY PKR depreciation. Finance costs decreased by 38% YoY to PKR 1,928mn. The decline in finance costs was led by lower interest rates.
- KAPCO: During 3QFY21 the company posted a Profit After Tax (PAT) of PKR 4,429mn (EPS: PKR 5.03), down by 27% YoY compared to PKR 6,047mn (EPS: PKR 6.87) during same period last year. This takes 9MFY21 profitability to PKR 15,927mn (EPS: PKR 18.09), down by 10% compared to PKR 17,774mn (EPS: PKR 20.19) during 9MFY20. During 3QFY21, sales is down by 3% YoY to PKR 11.6bn due to lower dispatches along with lower FO prices. However, PKR has depreciated 3.4% YoY. During 9MFY21, sales is down by 19% due to same reasons. Gross profit of the company decreased by 11% YoY, due to higher maintenance expenses to PKR 1,008mn compared to PKR 153mn during 3QFY20. However, PKR has depreciated 3.4% YoY during 3QFY21. During 3QFY21, Other income declined by 58% YoY to PKR 2.2bn due to lower interest rates and lower true-up income to PKR 67mn compared to PKR 1,916mn during 3QFY20. Finance cost decreased by 65% YoY during 9MFY21 on the back of lower interest rates and lower short term borrowings, which are down by 27% YoY to PKR 39bn (as of Dec'20).

Exhibit: Power Sector Profitability

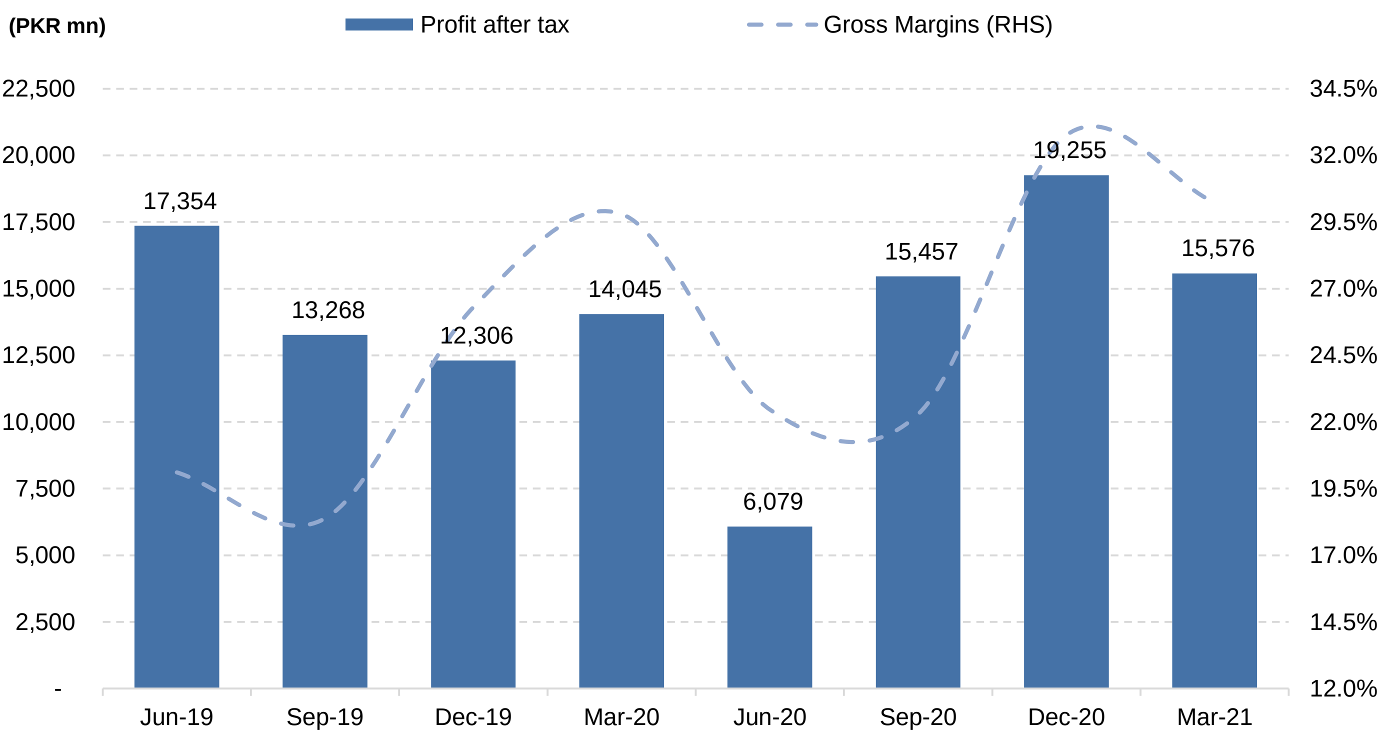
PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
HUBC*	24,918	18,253	37%	8,576	7,201	19%	8,198	5%
KAPCO	15,927	17,774	-10%	4,429	6,047	-27%	5,296	-16%
KEL	9,443	3,592	163%	2,571	797	222%	5,761	-55%
Total	**50,288**	**39,619**	**27%**	**15,576**	**14,045**	**11%**	**19,255**	**-19%**

Source (s): Company Financials, AHL Research, *Consolidated

Power Generation and Distribution

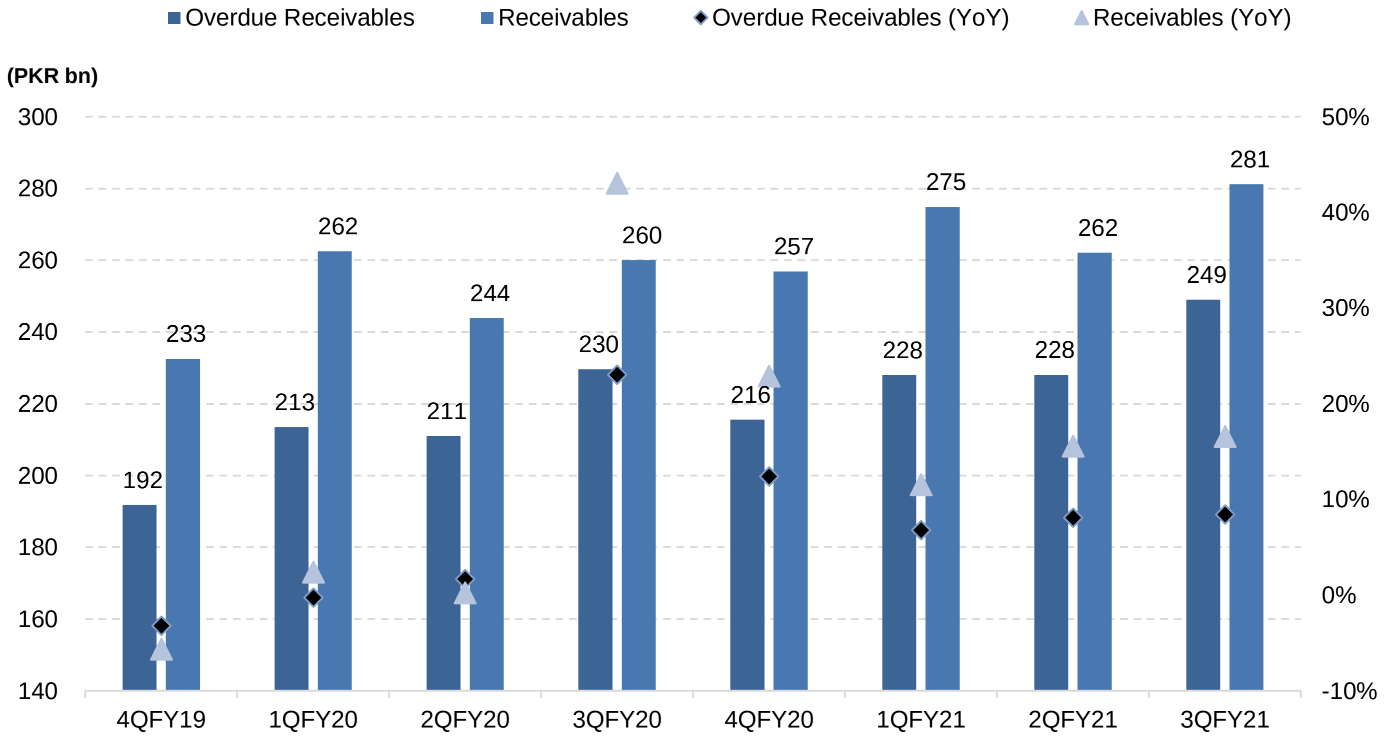
Profitability up by 11% YoY during 3QFY21

Exhibit: Historical Profitability and GMs of Power Sector



Source (s): Company Financials, AHL Research

Exhibit: AHL Power Universe: Receivables Trend

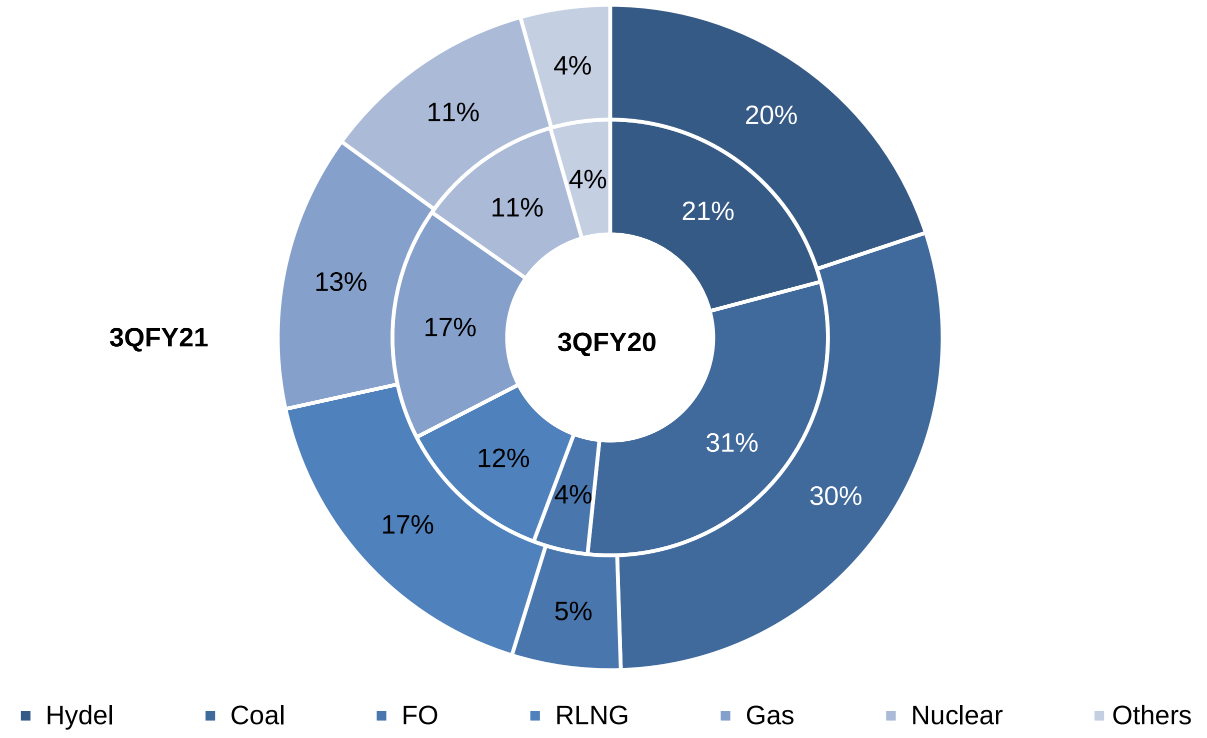


Source (s): Company Financials, AHL Research

Power Generation and Distribution

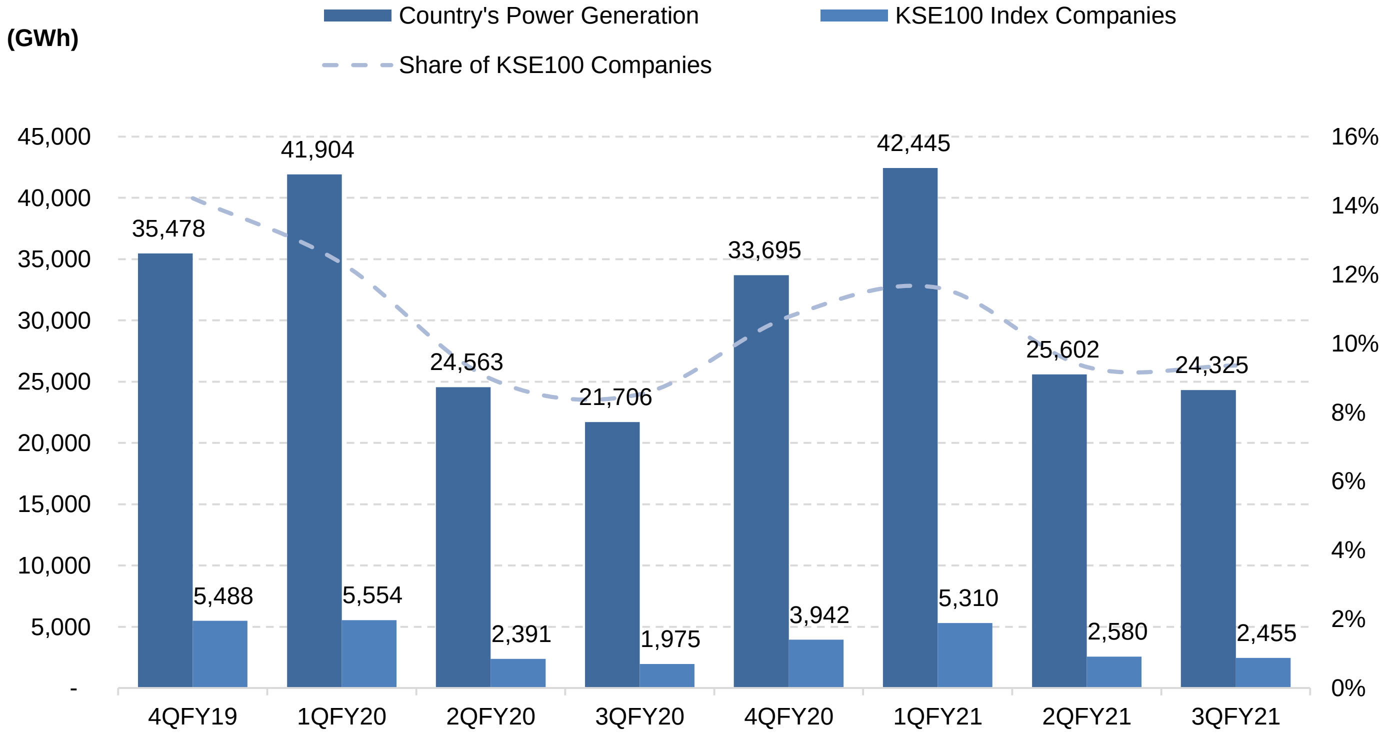
Proftitability up by 11% YoY during 3QFY21

Exhibit: Generation Mix



Source (s): NEPRA, AHL Research

Exhibit: Share of KSE100 Power Companies in Country's Generation



Source (s): NEPRA, Company Financials, AHL Research,

Oil & Gas Marketing Companies

Highest Ever Quarterly Profits in 3QFY21

- Oil and Gas Marketing Companies posted remarkable profit of PKR 26.9bn in 9MFY21 compared to loss of PKR 492mn in same period last year. On a quarterly basis, bottom-line witnessed highest ever quarterly profits during 3QFY21 to PKR 12.2bn. The significant jump in profitability is attributable to i) significant increase in international oil prices resulting in massive inventory gains, ii) Economy growing at quickest pace (improvement in large scale manufacturing and growth in car sales by 36% YoY during 9MFY21) increasing demand of petroleum products, iii) Surge in trade activity (exports and imports) and better agricultural yields resulting in higher sales of HSD, iv) preference to private transport over public transport to reduce chances of contracting Covid-19and v) strict surveillance on borders and various parts of country in order to control supply of illegal or dumped fuel from Iran. As a result, topline of the sector increased by 14% YoY to PKR 383bn in 9MFY21 due to double digit volumetric growth of 15% YoY (MS, HSD and FO volumes increased by 9%, 17% and 43% YoY) in 9MFY21.
- During 9MFY21, PSO reported profit after tax of PKR 18.2bn (EPS: PKR 38.86) compared to profit of PKR 3.0bn (EPS: PKR 6.41) in 9MFY20. Despite increase in overall sales volumes by 21% YoY (FO, HSD and MS volumes increased by 58%, 26% and 17% YoY), topline of the company settled at PKR 853bn in 9MFY21, down by 4% YoY on account of lower average selling prices of petroleum products. On the other hand, company posted a gross profit of PKR 37.7bn compared to gross profit of PKR 20.1bn in 9MFY20 amid change in ex-refinery prices that resulted in inventory gains of PKR ~9.0bn in 9MFY21 compared to inventory loss of PKR 6.0bn in same period last year along with surge in sales volumes. On a quarterly basis, PSO managed to increase its profitability by 99% QoQ to PKR 8.7bn in 3QFY21.
- Despite volumetric decline of 3% YoY in 9MFY21, APL managed to post profit of PKR 3,664mn on account of better inventory management which resulted in inventory gains in the period under review. Gross margins of the company improved by 407bps YoY to 5.65% in 9MFY21 compared to 1.58% in 9MFY20. Improvement in gross margins can be attributable to massive inventory gains and higher sales of furnace oil (up by 31% YoY during 9MFY21) which is a high margin product.
- Similarly, SHEL posted a gigantic profit of PKR 5.0bn in 9MFY21 due to massive inventory gains and lower financial charges in the period under review. During 3QFY21, company posted profit of PKR 1.9bn due to higher sales volumes and inventory gains compared to gigantic loss of PKR 4.3bn in same period last year.

Exhibit: Oil and Gas Marketing Sector Profitability

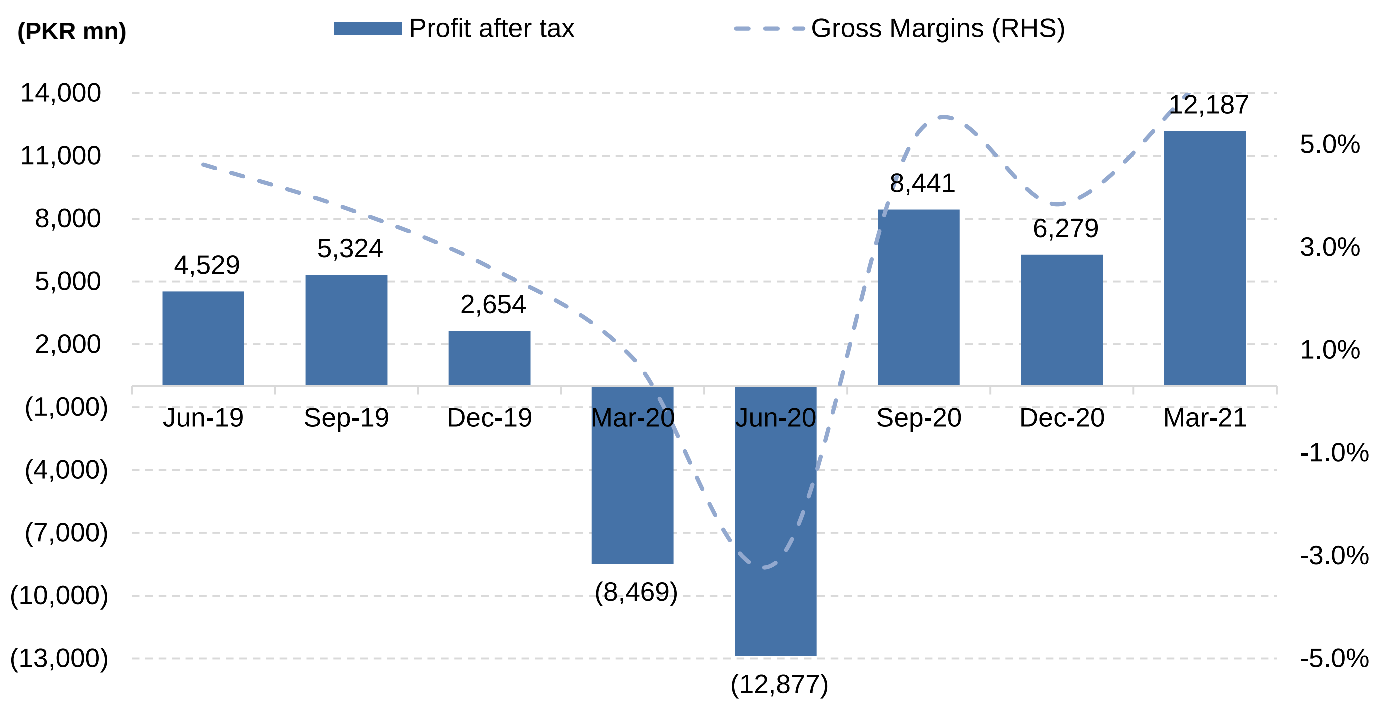
PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
APL	3,664	870	321%	1,518	(710)	nm	661	130%
PSO	18,242	3,008	506%	8,720	(3,426)	nm	4,378	99%
SHEL	5,000	(4,371)	nm	1,948	(4,332)	nm	1,240	57%
Total*	**26,907**	**(492)**	**nm**	**12,187**	**(8,469)**	**nm**	**6,279**	**94%**

Source (s): Company Financials, AHL Research, *Ex. HASCOL

Oil & Gas Marketing Companies

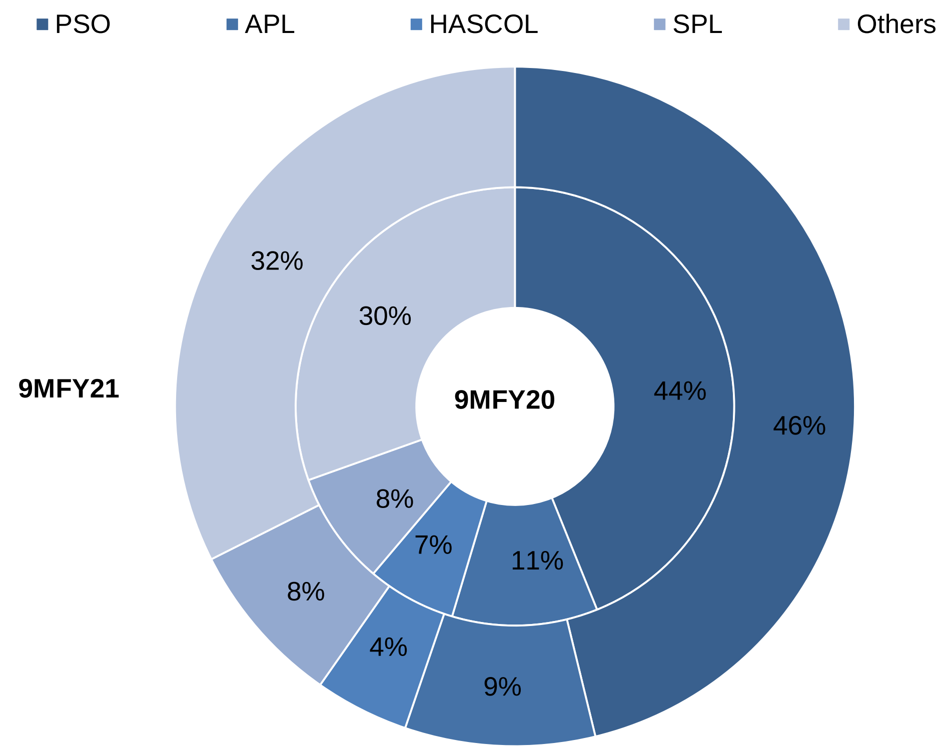
Highest Ever Quarterly Profits in 3QFY21

Exhibit: Historical Profitability and GMs of Oil and Gas Marketing Sector



Source (s): Company Financials, AHL Research

Exhibit: Market Share of Listed OMCs

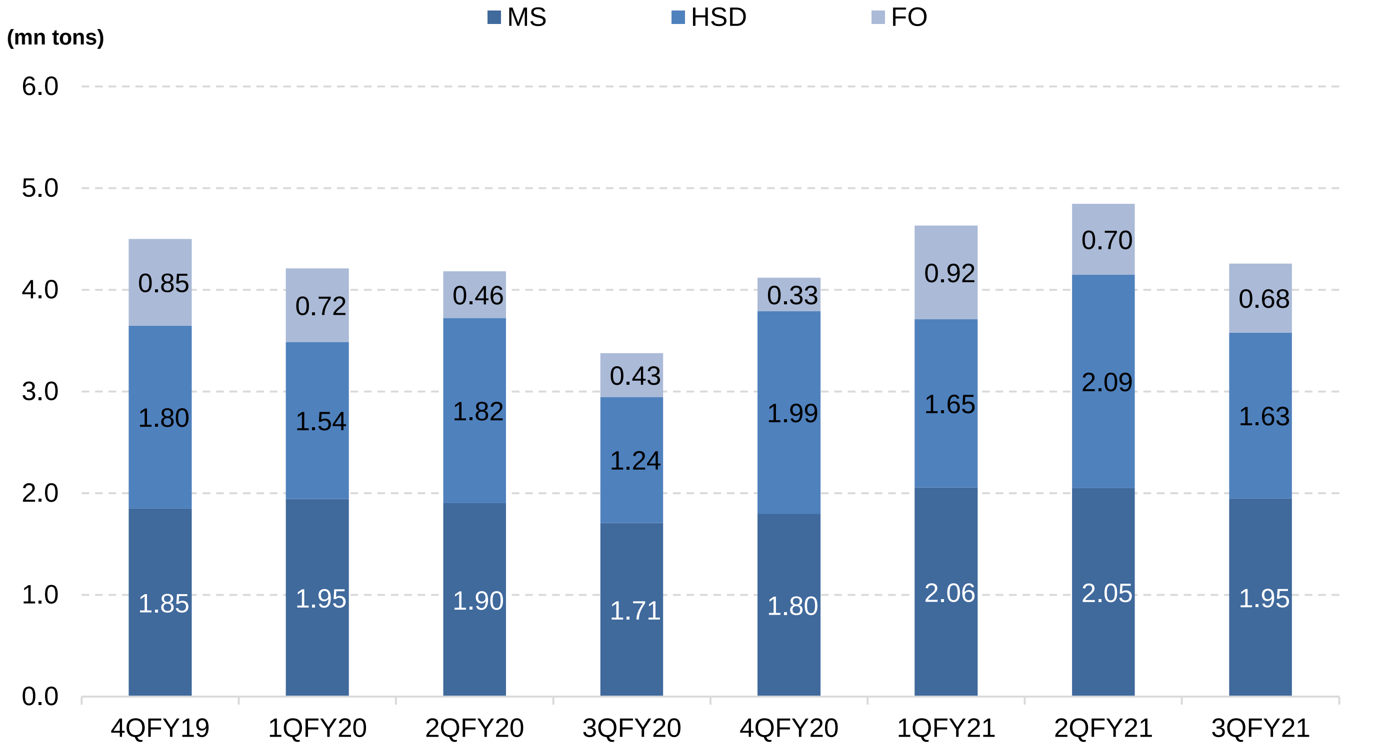


Source (s): OGRA, AHL Research

Oil & Gas Marketing Companies

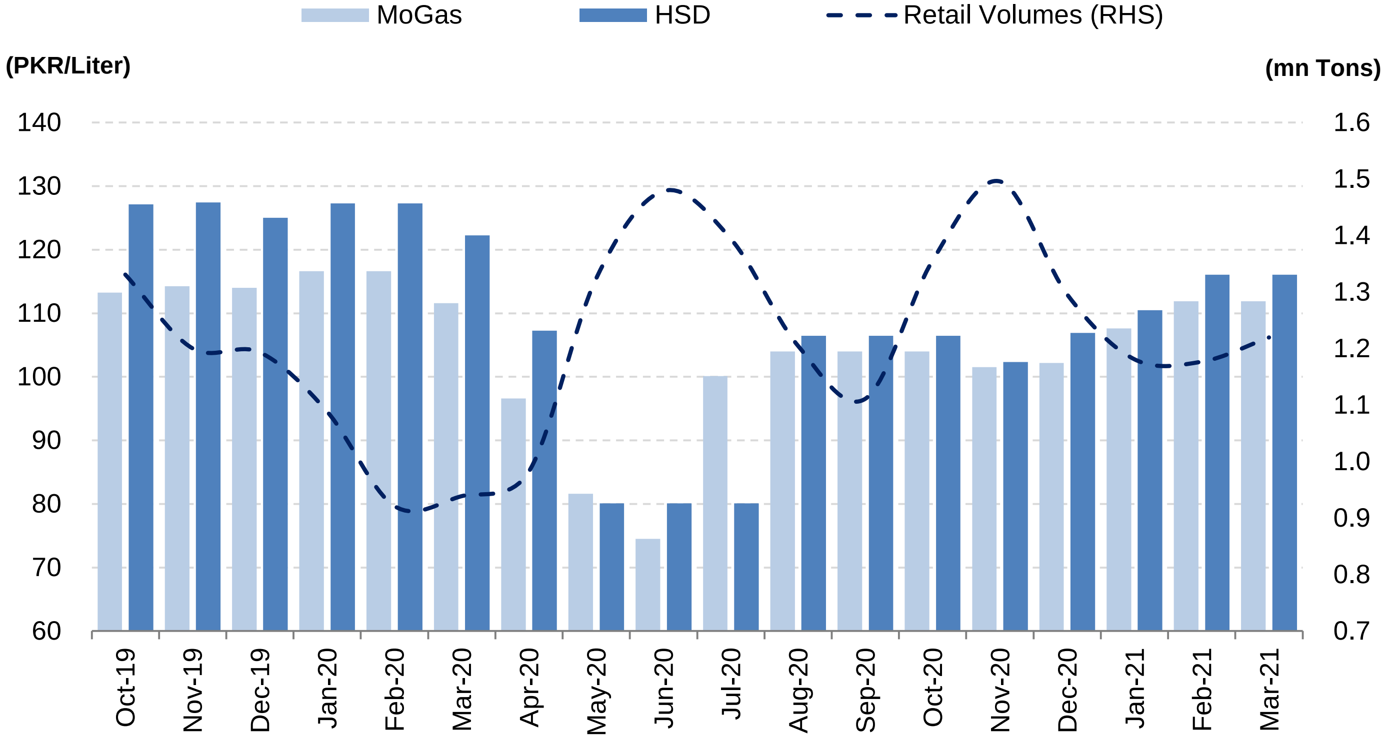
Highest Ever Quarterly Profits in 3QFY21

Exhibit: Industry Quarterly Volumes



Source (s): OCAC, AHL Research,

Exhibit: Monthly Volume and Price Trend



Source (s): OGRA, AHL Research

ARIF HABIB LIMITED

Textile Sector Displayed Remarkable Resilience

- Textile companies managed to increase their topline by 21% YoY in the quarter under review as i) major competitors (India) battling with more severe pandemic situation and our country managed to cope up with these challenges, ii) Buyers reducing their reliance from China and India as a result, renowned new players purchased products from Pakistan's textile companies, iii) Higher product prices compared to SPLY, and iv) Cheap labour and stable currency attracted new buyers. As a result, full recovery in export markets enabled higher capacity utilization for most of the companies. Consequently, listed textile companies recorded quarterly sales of PKR 88.0bn compared to PKR 72.5bn in the same period last year.
- Topline of the listed textile entities increased by 21% YoY to PKR 259bn in 9MFY21 due to revival of economic activity and glut of demand for value and non-value added textile products. Meanwhile, bottom-line witnessed massive growth of 89% YoY to PKR 20,197mn during 9MFY21 compared to earnings of PKR 10,677mn in the same period last year.
- NML profitability surged by 83% YoY and 126% QoQ to PKR 1,871mn during 3QFY21 compared to PKR 1,024mn in same period last year. Topline of the company witnessing a growth on yearly basis by 7% to PKR 18.4bn in 3QFY21. The growth in profitability is attributable to higher gross margins and massive dividend income from MCB (associated companies).
- ILP posted a profit after tax of PKR 1,697mn (EPS: PKR 1.95), up by 169% YoY and 11% QoQ, compared to PKR 631mn in 3QFY20 and PKR 1,522mn in 2QFY21, respectively. Despite appreciation of PKR against green back and exchange loss of around PKR ~500mn, topline grew by 17% YoY in 3QFY21 due to i) utilization of hosiery division nearly at 100% given excess orders, ii) higher utilization of the denim plant given addition of new customers, and iii) continuous addition of new machineries in its hosiery division. Gross margins settled at 29.9%, up by 595bps compared to 24.0% in 3QFY20 on account of surge in prices of final product and economies of scale.
- NCL reported a massive profitability growth to PKR 1,859mn in 3QFY21 due to drastic increase in prices of raw cotton resulted in massive inventory gains as company procure cotton at the start of season.
- FML's profitability dropped by 21% YoY in 3QFY21 due to massive surge in raw material prices (Cotton) along with appreciation of PKR which translated to lower gross margins amid exchange loss.

Exhibit: Textile Sector Profitability

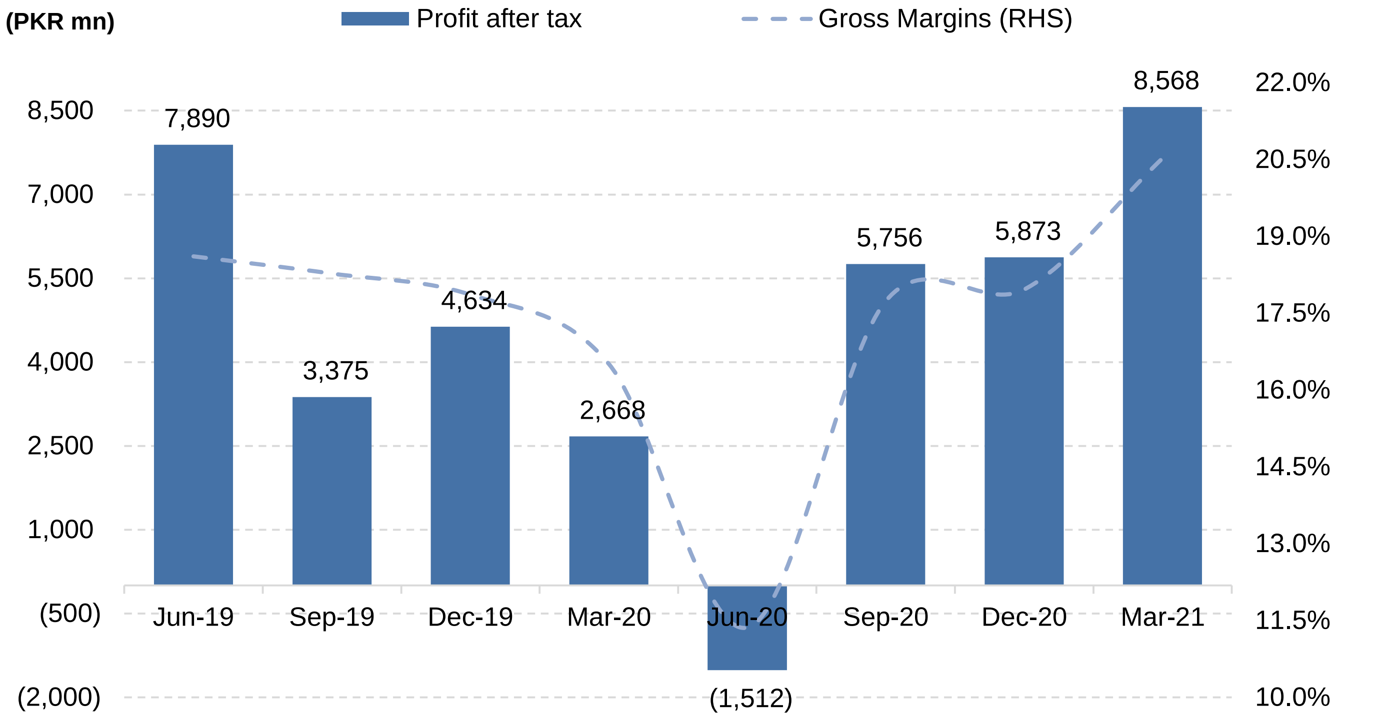
PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
ANL	153	261	-41%	(151)	(52)	nm	84	nm
FML	3,436	2,818	22%	918	1,165	-21%	903	2%
GATM	3,458	700	394%	1,692	(370)	-557%	1,167	45%
ILP	4,601	2,162	113%	1,697	631	169%	1,522	11%
KTML	1,690	1,469	15%	681	440	55%	496	37%
NCL	3,213	352	813%	1,859	(170)	nm	874	113%
NML	3,645	2,915	25%	1,871	1,024	83%	827	126%
GADT	1,859	305	510%	1,012	(514)	nm	655	54%
YOUW	12	(112)	nm	4	(71)	nm	7	-33%
Total	**22,068**	**10,870**	**103%**	**9,584**	**2,082**	**360%**	**6,535**	**47%**

Source (s): Company Financial, AHL Research

Textile

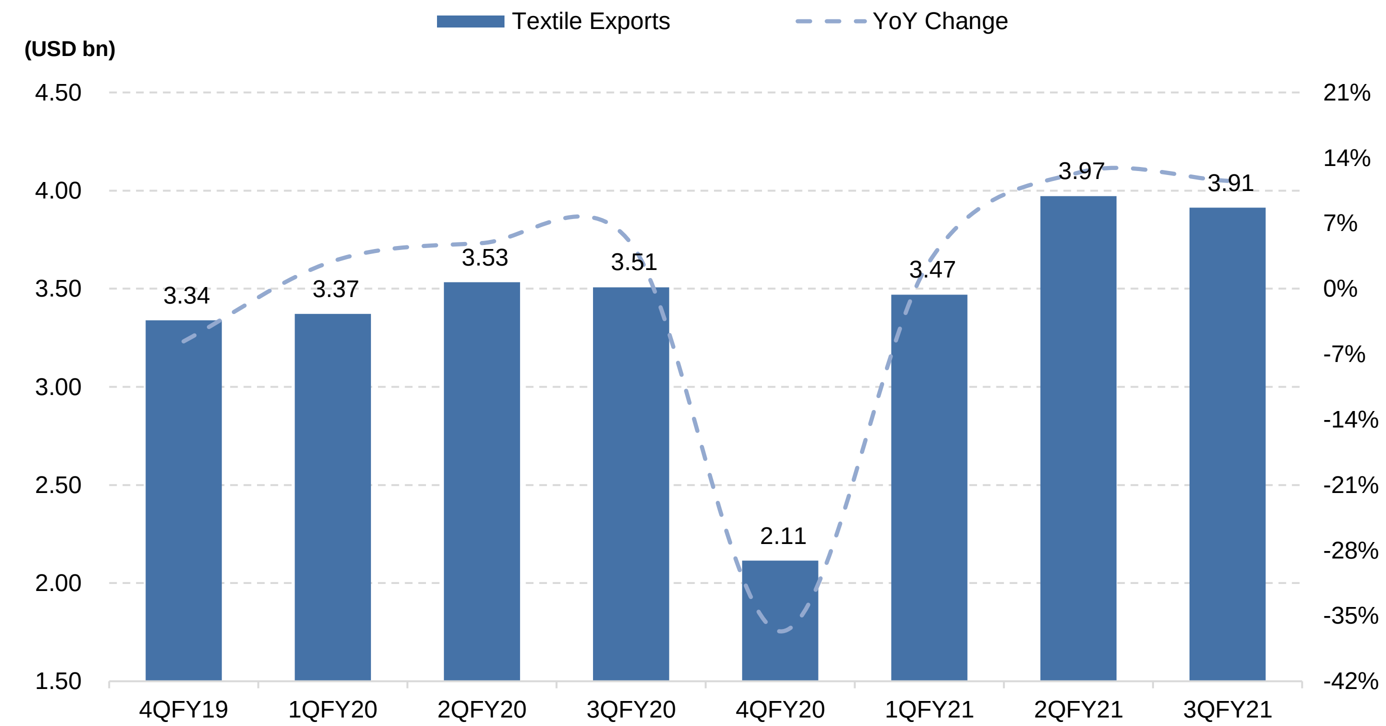
Textile Sector Displayed Remarkable Resilience

Exhibit: Sector Profitability (Textile Composite)



Source (s): Company Financials, AHL Research

Exhibit: Textile Exports were up by 12% YoY during 3QFY21

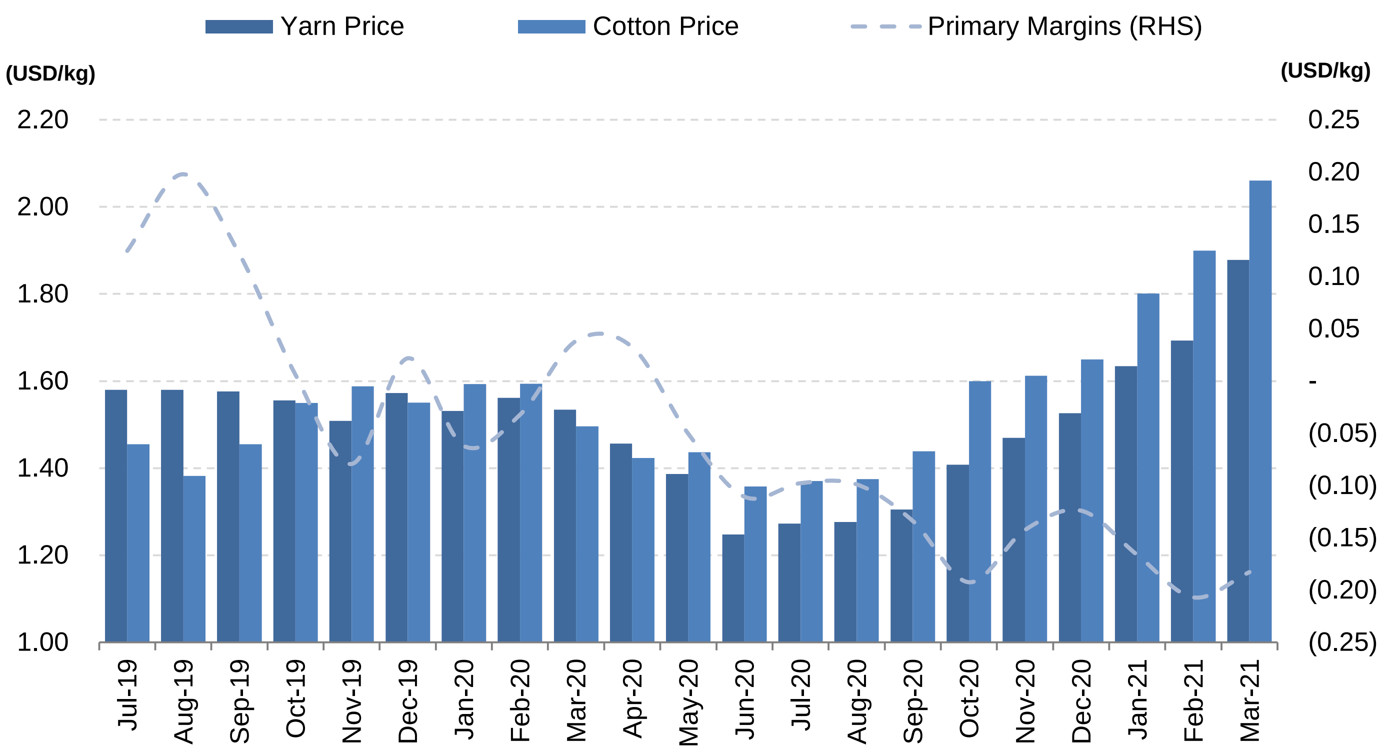


Source (s): PBS, AHL Research

Textile

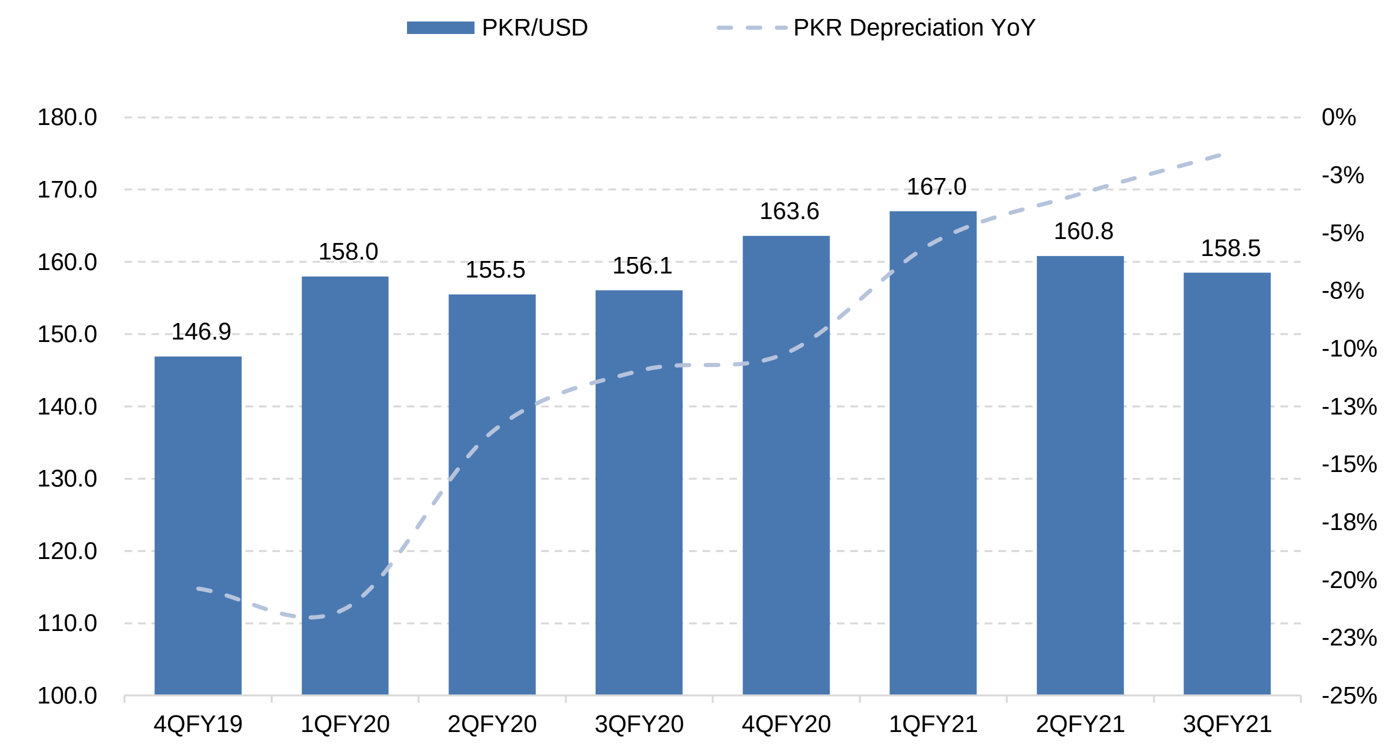
Textile Sector Displayed Remarkable Resilience

Exhibit: Primary Yarn Margins



Source (s): PBS, AHL Research

Exhibit: 2% YoY PKR depreciation during 3QFY21



Source (s): SBP, AHL Research

Automobile

Quarterly Profits at 3-Year High

- Automobile sector posted outstanding financial results during 9MFY21 as their net profitability almost doubled on year on year basis due to i) Low policy rate helping car sales to increase drastically as auto financing has increased by PKR 74bn during 9MFY21, ii) Low base effect amid announced country wide lockdown by the incumbent government last year which restricted economic activity , iii) Buyers purchasing power parity revitalized and iv) Appreciation of PKR against regional currencies improving gross margins of the listed companies. As a result, automobile sales volumes (including LCVs and 4*4) increased by 36% YoY to 134,718 units compared to 98,947units in 9MFY20. Likewise, tractors sales increased by 57% YoY during 9MFY21 to 36,939 units compared to 23,513 units in same period last year.
- Topline of the sector increased by 67% YoY to PKR 359bn during 9MFY21 compared to PKR 241bn in SPLY. Sales revenue increased due to i) rising demand on the back of improving purchasing power parity, ii) Higher inflows of foreign remittances, and iii) higher prices of vehicles compared to same period last year. Likewise, sales volume of two wheelers (ATLH) also increased by 25% YoY to 961,076 units due to aforementioned reason.
- Profitability of the Automobile sector (Assemblers & Parts) increased drastically due to improvement in margins of all listed players given massive demand from automobile assemblers, economies of scale and currency appreciation against green back resulted in surge in gross margins.
- INDU's bottom-line recorded a significant jump of 69% YoY to PKR 8,415mn in 9MFY21 vs PKR 4,984mn in preceding period last year. The growth in profitability is on account of increase in sales volumes by 69% YoY to 42,670 units in 9MFY21 compared to 25,300 units in 9MFY20. Gross margins settled at 8.20%, down by 225bps YoY amid change in sales mix from high margin Toyota Corolla to low margin Toyota Yaris along with surge in prices of raw materials and higher freight costs.
- MTL's earnings settled at PKR 1,663mn, up by 201% YoY and 11% QoQ. During 9MFY21, MTL outperformed as tractor volumes surged by 77% YoY to 25,927 units due to improvement in farmers yield which bodes well for tractor industry. On the other hand, gross margins improved amid economies of scale, currency appreciation and change in sales mix.
- PSMC's topline increased by 103% YoY to PKR 85bn during 9MFY21 compared to PKR 69bn in same period last year due to increase in sales volumes by 13% YoY to 66,013 units vs 58,303 units in 9MFY20. Bottom-line of the company skyrocketed on account of massive decline in finance cost given lower interest rate and retirement of borrowings.

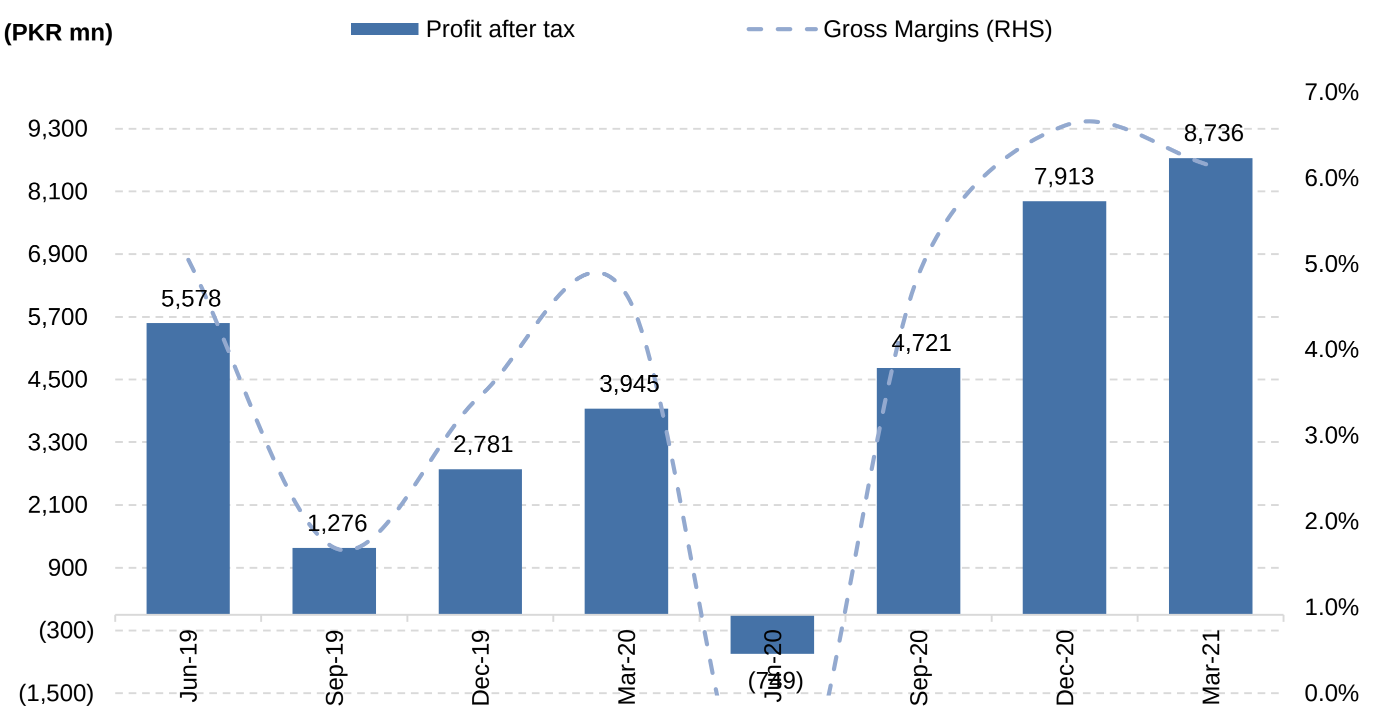
Exhibit: Auto Sector Profitability (Assemblers & Parts)

PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
ATLH	3,713	2,236	66%	1,421	836	70%	1,288	10%
INDU	8,415	4,984	69%	3,614	2,679	35%	2,956	22%
MTL	4,301	1,361	216%	1,663	553	201%	1,503	11%
PSMC	1,651	(2,336)	nm	778	(941)	nm	1,009	nm
AGIL	701	97	623%	263	98.4	168%	281	-6%
THALL	2,589	1,660	56%	997	720	38%	875	14%
Total*	**21,369**	**8,001**	**167%**	**8,736**	**3,945**	**121.5%**	**7,913**	**10.4%**

Source (s): Company Financial, AHL Research, *Ex. HCAR

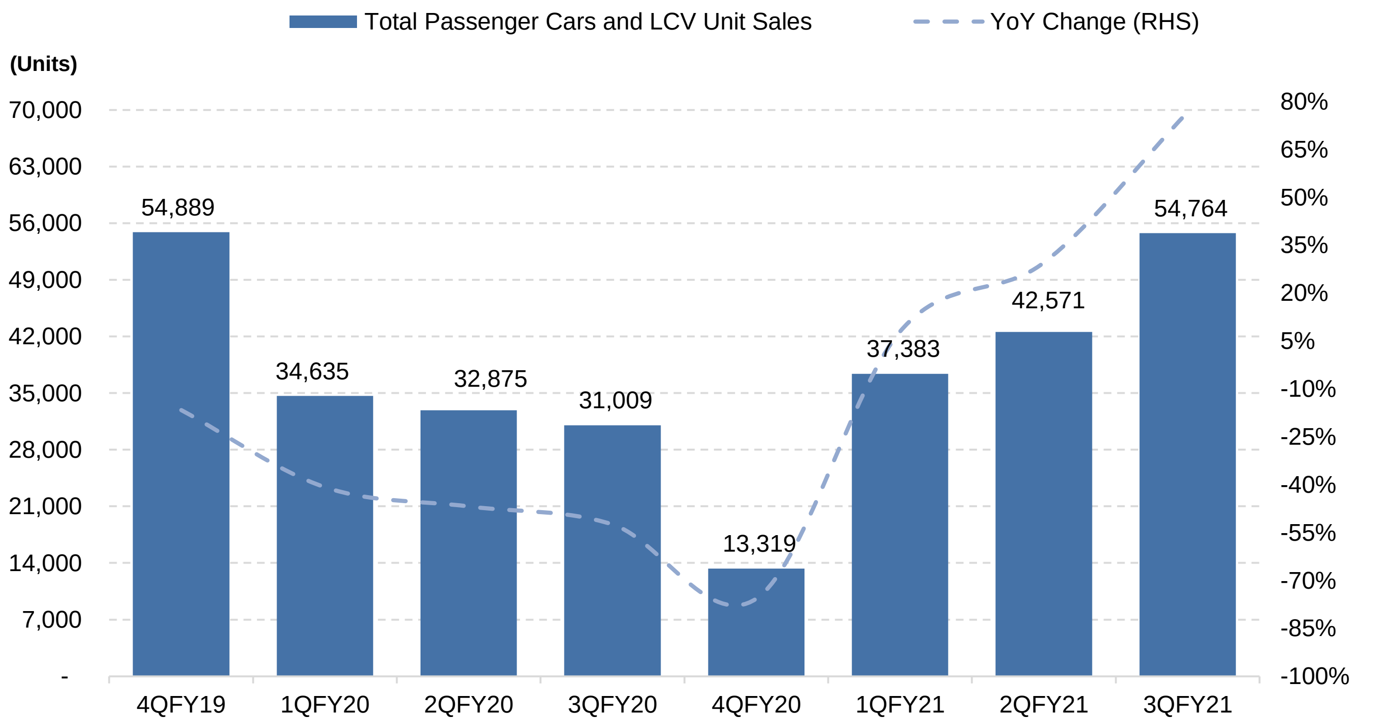
Automobile
Quarterly Profits at 3-Year High

Exhibit: Historical Profitability and GMs of Auto Sector



Source (s): Company Financials, AHL Research

Exhibit: Auto Sales up by 77% YoY during 3QFY21

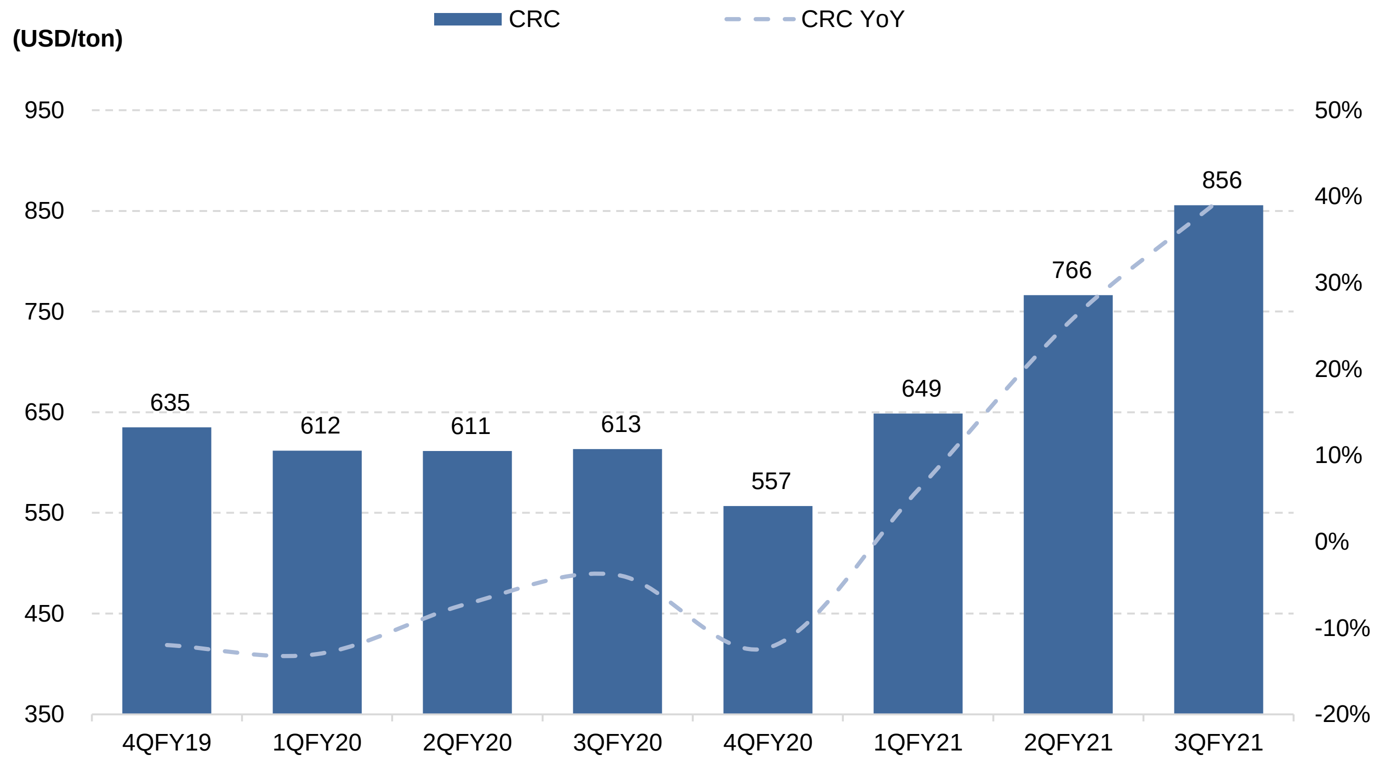


Source (s): PAMA, AHL Research

Automobile

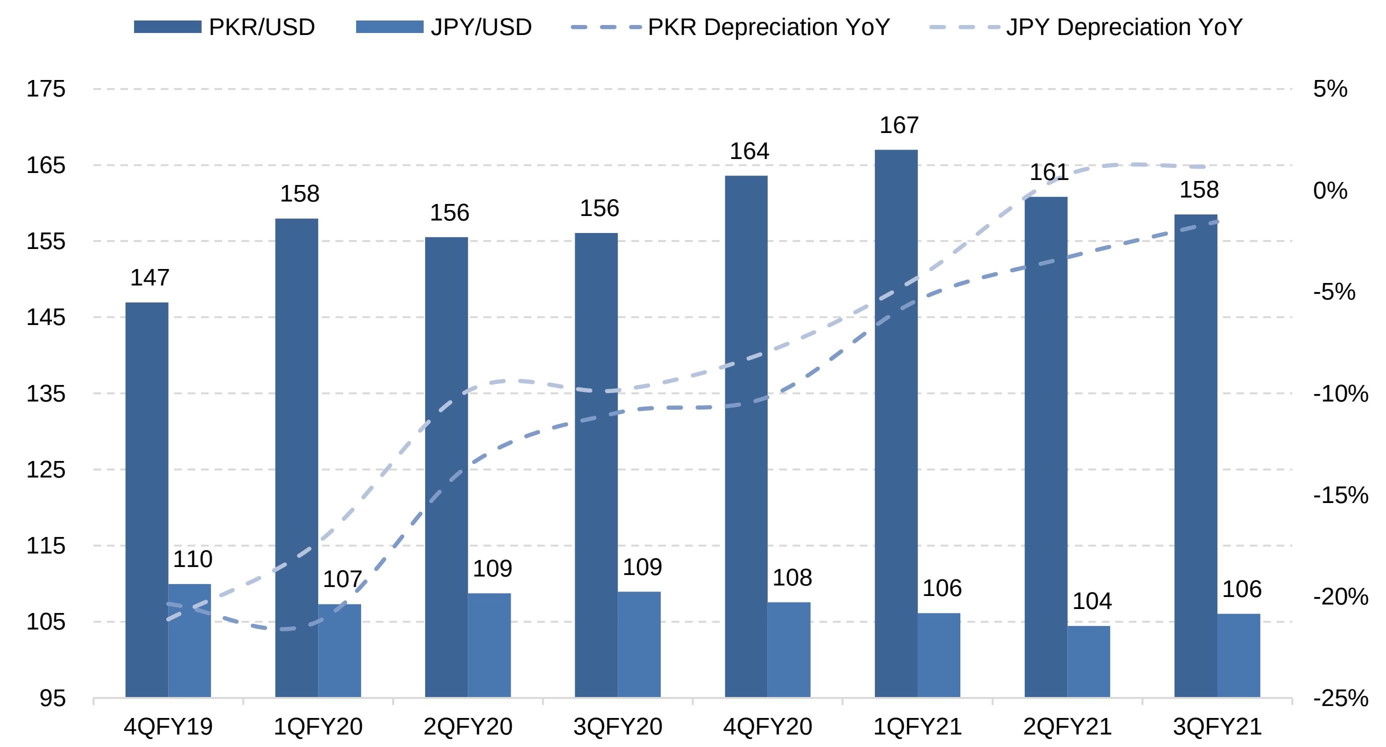
Quarterly Profits at 3-Year High

Exhibit: CRC Prices went up by 40% YoY during 3QFY21



Source (s): Bloomberg, AHL Research,

Exhibit: 2% YoY PKR depreciation witnessed in 3QFY21



Source (s): Bloomberg, AHL Research

Chemicals

Higher Margins + Lower Finance = Higher Profitability

- Chemical sector's profitability jumped up by 3.9x YoY during 3QFY21. Rise in profitability is triggered by higher margins coupled with lower finance cost amid decline in interest rates.
- EPCL: During 1QCY21 the company posted a profit after tax (PAT) of PKR 4,143mn (EPS: PKR 4.56), up by 21x YoY compared to PKR 193mn (EPS: PKR 0.21) during SPLY. On QoQ basis, earnings are up by 14% QoQ. Along with the result, the company also announced a cash dividend of PKR 0.8/share. During 1QCY21, sales increase by 122% YoY to PKR 15.7bn due to higher PVC production coupled with 55% YoY increase in PVC prices. Gross margins of the company went up by 22pps YoY to 39.8% due to 64% YoY rise in international PVC margins. Other expenses went down by 77% YoY to PKR 123mn during 1QCY21 due to exchange loss of PKR 406mn during 1QCY20. Other income declined by 30% YoY to PKR 291mn due to decline in interest rates. Finance costs also declined by 48% YoY to PKR 403mn due to cut in interest rates.
- LOTCHEM: During 1QCY21 the company posted a PAT of PKR 1,639mn (EPS: PKR 1.08), up by 28x YoY compared to PKR 58mn (EPS: PKR 0.04) during SPLY. On a QoQ basis, earnings went up by 51%. During 1QCY21, sales went up by 25% YoY to PKR 14.7bn. The rise in sales was due to higher PTA prices (+11% YoY) and production (+22% YoY to 128,995 tons), compared with same period last year. During 1QCY21, the company witnessed gross profits margins of 15.4% compared with loss during 1QCY20. The rise in gross margins is witnessed due to 44% YoY rise in PTA margins along with 1.5% YoY PKR depreciation. Other income went down by 19% YoY to PKR 278mn during 1QCY21 given decline in interest rates.
- ICI: During 3QFY21 the company posted a profit after tax (PAT) of PKR 1,962mn (EPS: PKR 21.24), up by 3.7x YoY compared to PKR 532mn (EPS: PKR 5.76) during SPLY. On a QoQ basis, earnings increased by 20%. During 3QFY21, net sales increased by 19% YoY to PKR 17,682mn, while on QoQ basis they ascended by 11%, rise in sales is witnessed due to higher sales form Polyester (+35% YoY), Chemical (+19% YoY), Pharma (+16% YoY), Animal Health (+48% YoY) and Soda Ash (+4% YoY). Gross margins of the company went up by 423bps YoY to 25% during 3QFY21, while on QoQ basis they went up by 84bps. Higher gross margins were owed to better performance of Polyester (GM up by 10pps to 18%) and Soda Ash (GM up by 5pps to 33%). During 3QFY21, the company booked an exchange gain of PKR 24mn, compared to exchange loss of PKR 373mn during 3QFY20 due to PKR appreciation during the quarter. Finance costs of the company went down by 61% YoY to PKR 188mn due to lower interest rates.
- Profitability of COLG and ARPL also went up by 18% YoY and 39% YoY, respectively. COLG profits were higher due to higher margins and lower finance cost, while ARPL profits are higher due to higher margins and coupled with higher other income.

Exhibit: Chemical Sector Profitability

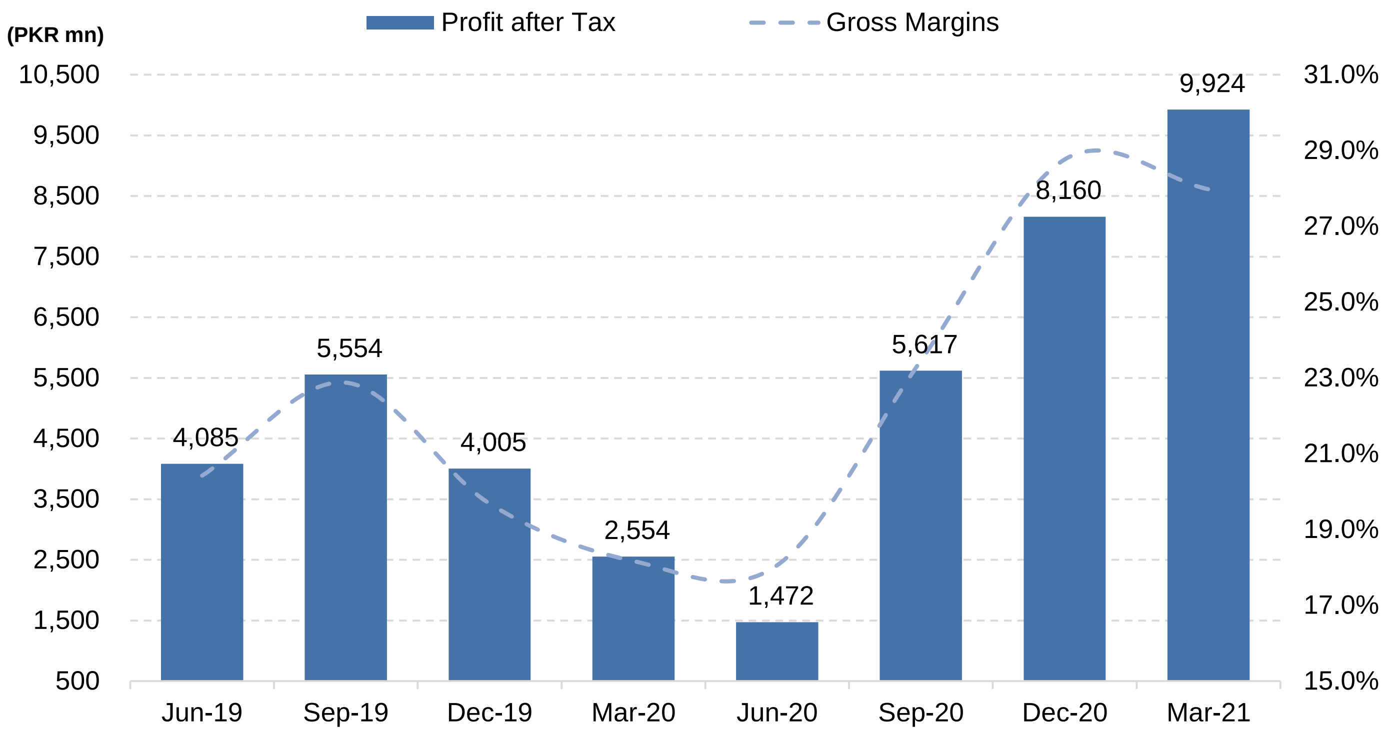
PKR mn	9MFY21	9MFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
ARPL	1,488	1,396	7%	623	449	39%	480	30%
EPCL	9,651	2,343	312%	4,143	193	2048%	3,627	14%
COLG	4,332	3,623	20%	1,558	1,322	18%	1,333	17%
ICI	4,580	2,384	92%	1,962	532	269%	1,633	20%
LOTCHEM	3,651	2,368	54%	1,639	58	2726%	1,087	51%
Total	**23,701**	**12,113**	**96%**	**9,924**	**2,554**	**289%**	**8,160**	**22%**

Source (s): Company Financial, AHL Research

Chemicals

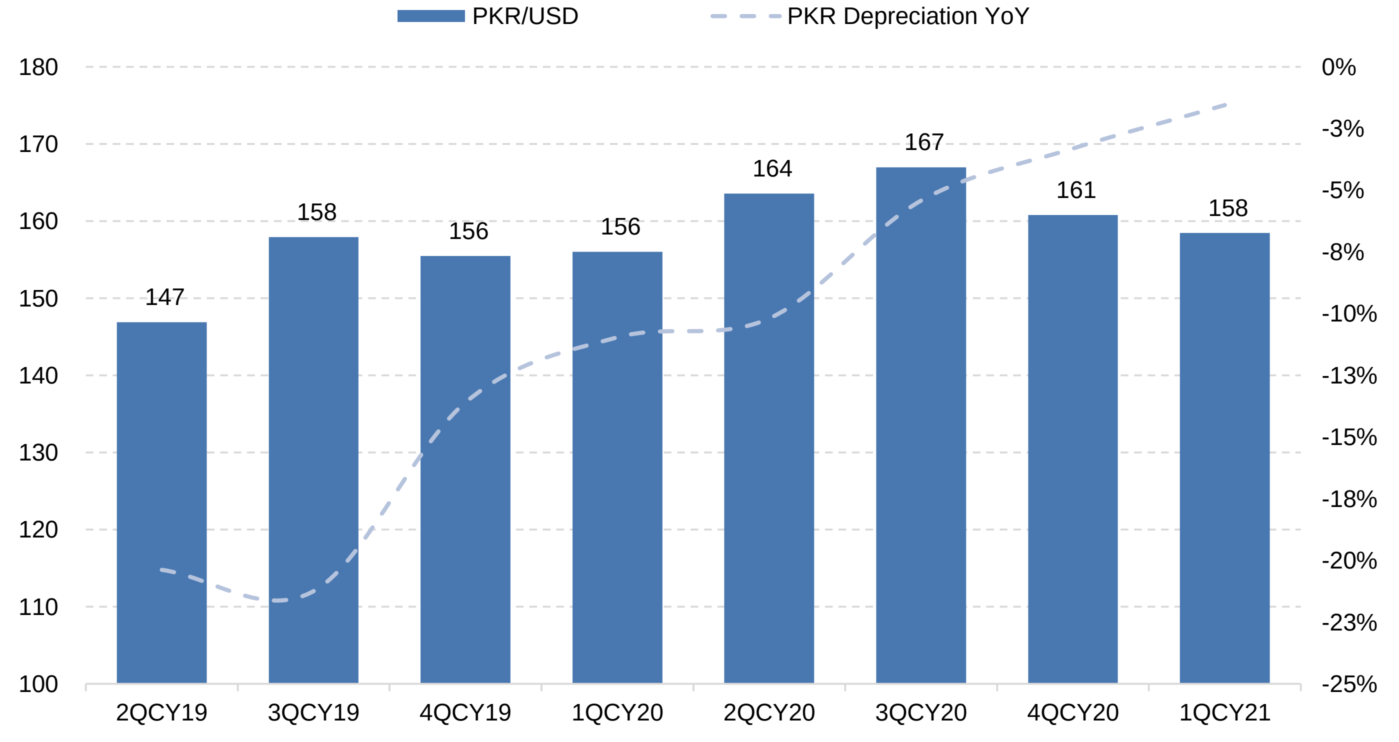
Higher Margins + Lower Finance = Higher Profitability

Exhibit: Historical Profitability and GMs of Chemical Sector



Source (s): Company Financials, AHL Research

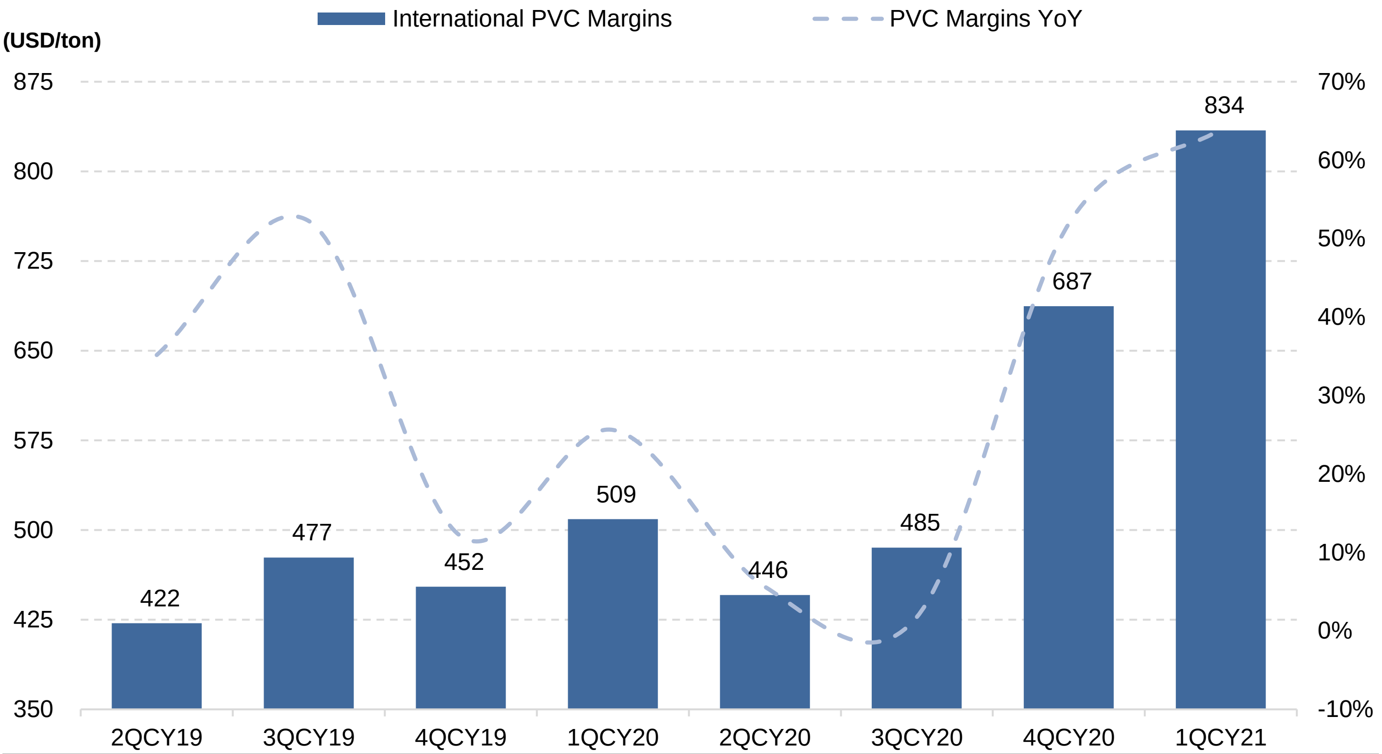
Exhibit: PKR Depreciated 2% YoY during 1QCY21



Source (s): SBP, AHL Research

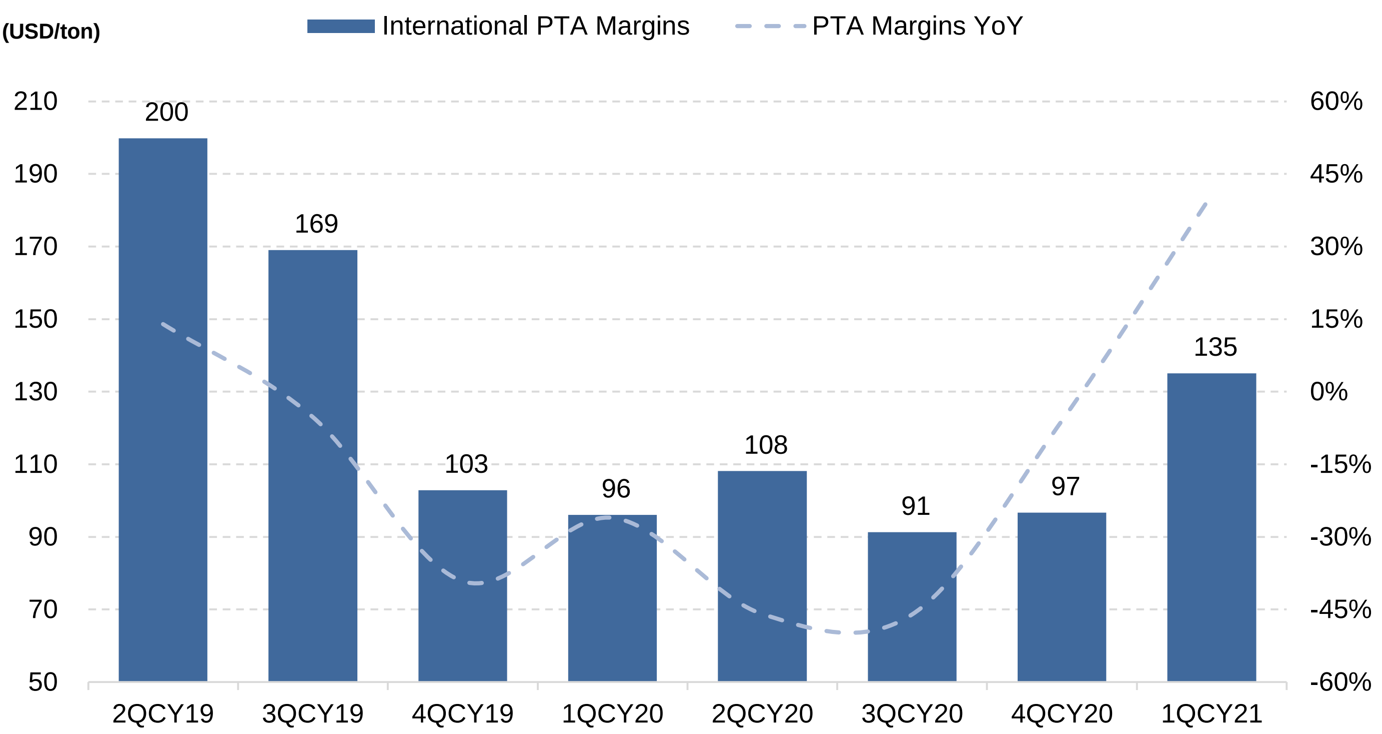
Higher Margins + Lower Finance = Higher Profitability

Exhibit: International PVC margins witnessed an increase of 64% YoY in 1QCY21



Source (s): Bloomberg, AHL Research

Exhibit: International PTA margins jumped up by 41% YoY in 1QCY21



Source (s): Bloomberg, AHL Research

Global Steel Prices Continue to Surge; Domestic Margins Rise

- Bottom-line of the domestic engineering (Steel) sector turned positive at PKR 4,034mn in 3QFY21 vis-à-vis a loss of PKR 10mn in SPLY amid continued interest in Automobile demand (economic recovery tagged with low interest rate environment aided auto financing) as well as growing construction activity in the country (government's Amnesty coupled with SBP's stipulation to banks to enhance mortgage financing to at least 5% of their private sector credit offtake, supported housing demand).
- ISL's bottom-line arrived at PKR 2,378mn in 3QFY21 (PKR 5,152mn in 9MFY21 at an all-time high), up by 18.8x YoY, attributable to a stunning growth in margins to 23.5% from 9.0% in SPLY. Primary reason behind this was a 33% YoY jump in company topline during the quarter amid strong demand ensuing from the automobile sector, followed by rising construction activity due to low interest rates and construction package announced by PM Khan. In addition, margins were further supported by augmenting international steel prices given strong global demand and rising input costs, which allowed room to local players to pass on the impact as well as recognize inventory gains on existing stock-in-hand. Moreover, a 61% YoY decline in financial charges to PKR 158mn owed to a significant 625bps cut in the SBP's benchmark rate to 7%, also aided company bottom-line.
- Consolidated earnings of INIL arrived at PKR 1,656mn during 3QFY21 compared to a loss of PKR 200mn in SPLY. Pertinently, INIL's consolidated revenue witnessed a jump of 47% YoY in the quarter under review as revival of the economy and restoration of the large scale manufacturing industries (particularly construction and automobile) have aided domestic volumes. While the company also continues to benefit from augmented exports demand as global supply remains restricted (recent reduction on export rebate by China further added to the aforementioned). In addition, global steel prices continue to surge amid strong demand from developed countries together with limited supply, which allowed company margins to expand to 21.6% vs. 7.9% n SPLY.

Exhibit: Steel Sector Profitability

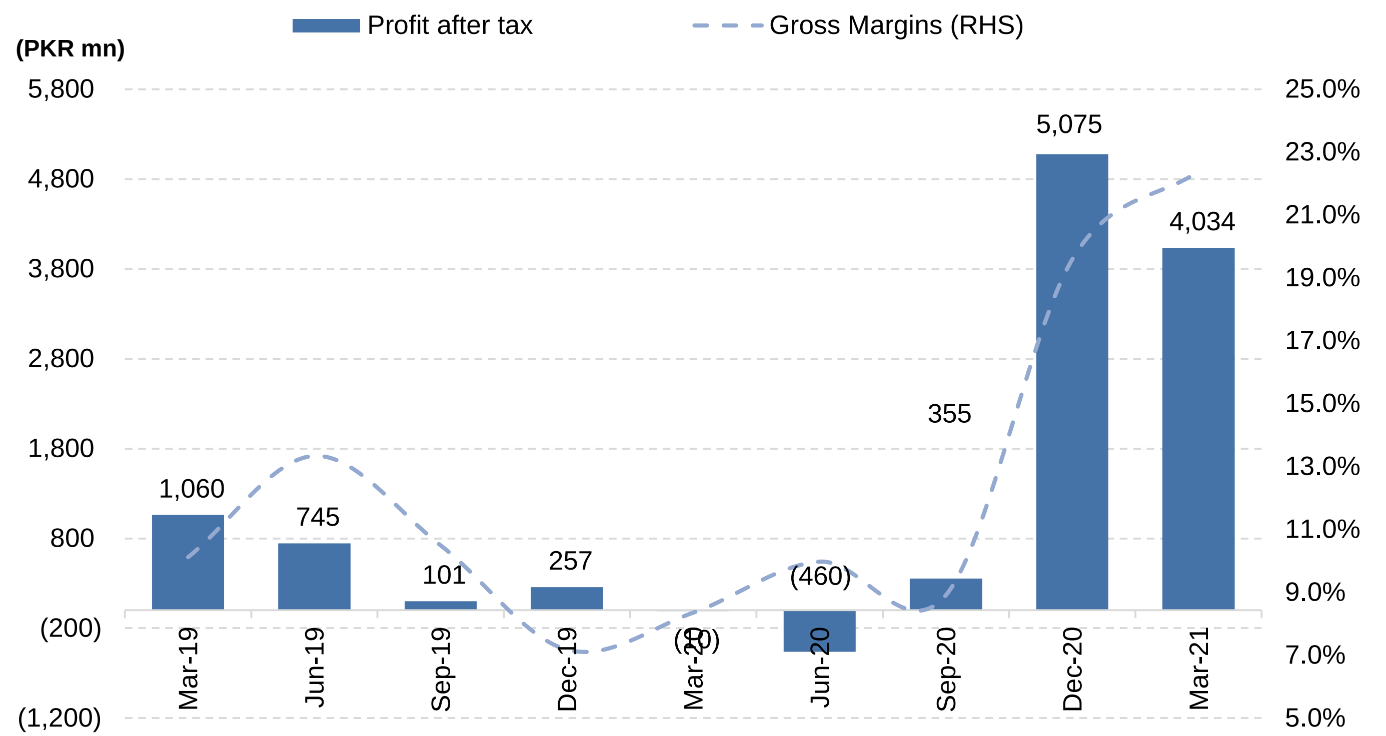
PKR mn	9MFY21	9MFY20	YoY	3QFY21	3QFY20	YoY	2QFY21	QoQ
INIL*	4,311	(308)	nm	1,656	(200)	nm	2,860	-42%
ISL	5,152	656	7.9x	2,378	190	12.5x	2,215	7%
Total	**9,463**	**348**	**27.2x**	**4,034**	**(10)**	**nm**	**5,075**	**-21%**

Source (s): Company Financial, AHL Research, *Consolidated

Engineering

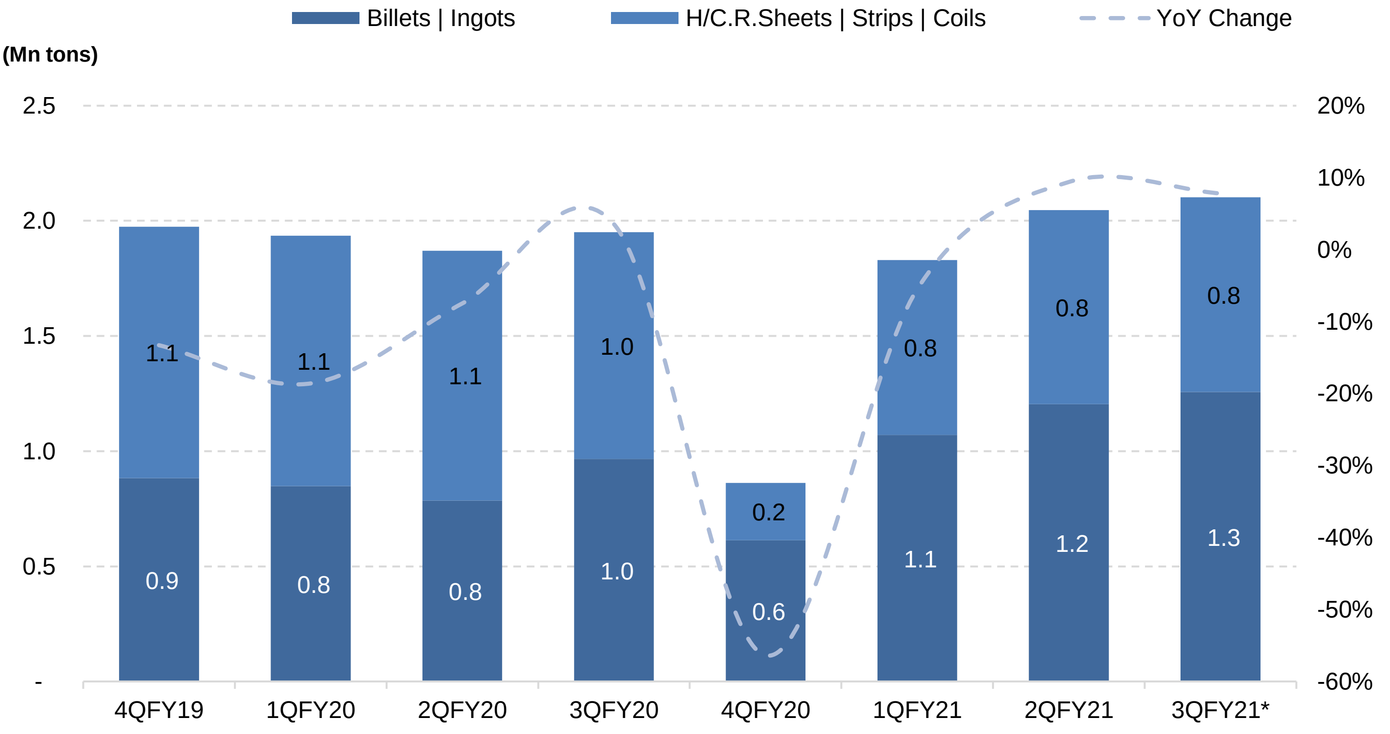
Global Steel Prices Continue to Surge; Domestic Margins Rise

Exhibit: Historical Profitability and GMs of Cement Sector



Source (s): Company Financials, AHL Research

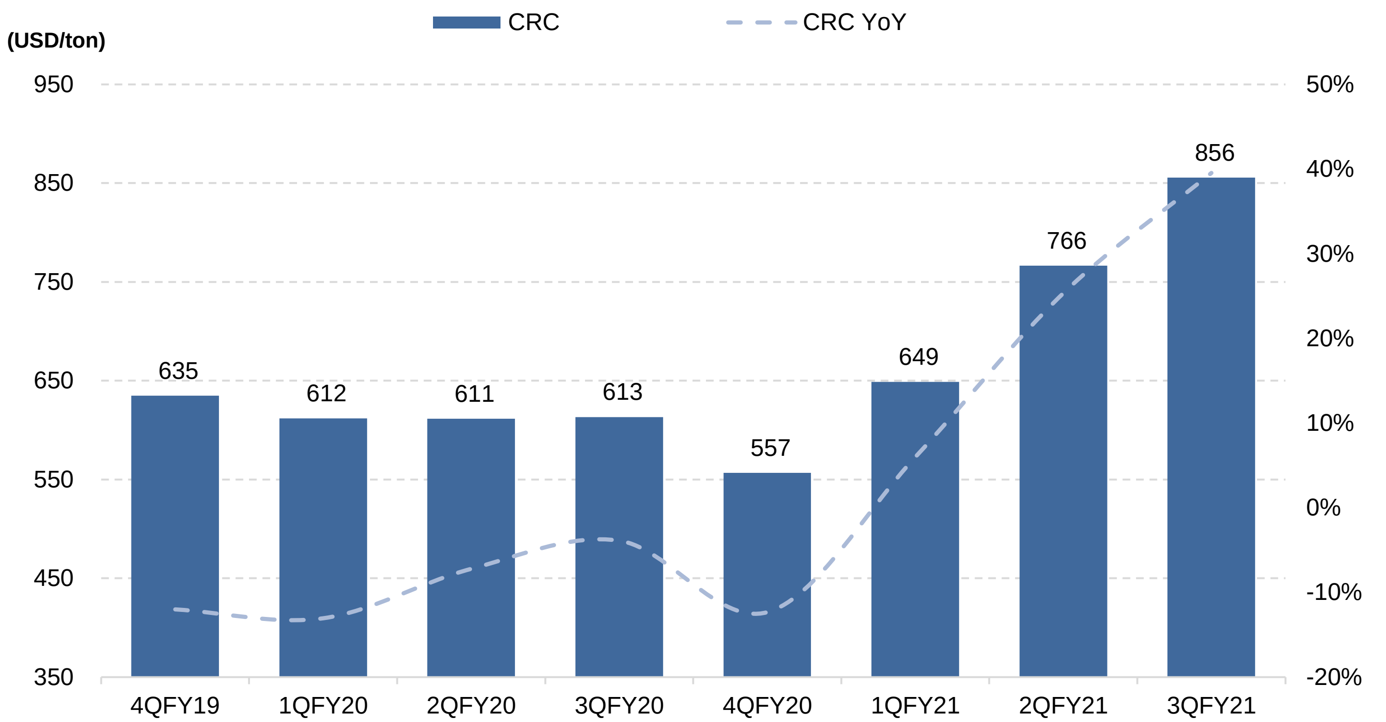
Exhibit: Steel Products Production



Source (s): PBS, AHL Research, * Extrapolated

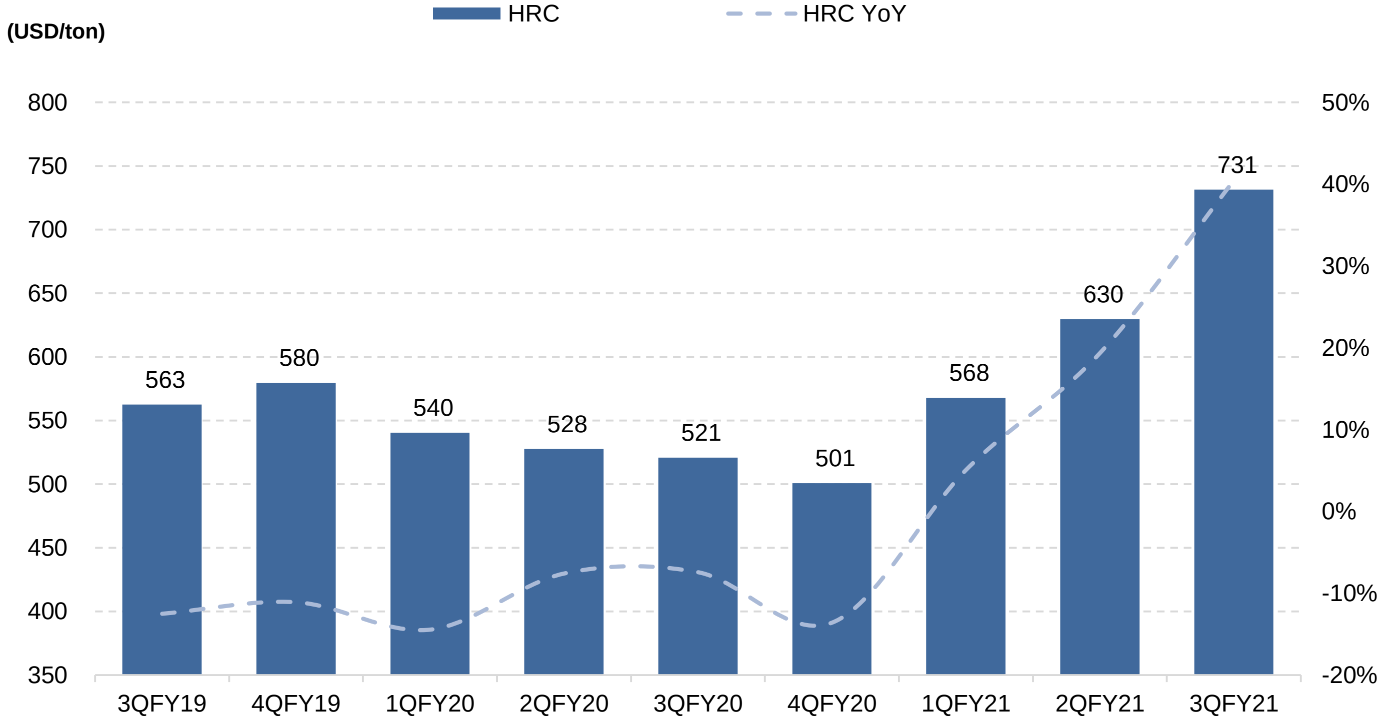
Global Steel Prices Continue to Surge; Domestic Margins Rise

Exhibit: Average CRC Prices increased by 40% YoY in 3QFY21



Source (s): Bloomberg, AHL Research

Exhibit: Average HRC Prices increased by 40% YoY in 3QFY21



Source (s): Bloomberg, AHL Research

Disclaimer

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings
Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'21 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

Equity Valuation Methodology
AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discounted Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

Risks
The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report.

Please remove the below footer.

Disclosure required under Research Analyst Regulations, 2015:
In order to avoid any conflict of interest, we hereby disclose that; Arif Habib Limited (AHL) has shareholding in OGDC, AKBL, PSO and BOP.