Pakistan State Oil Ltd.

PKR181.2 - BUY

Sarah Khurshid, CFA
sarah.khurshid@alfalahclsa.com
+92-21-35645090-95 (Ext: 336)

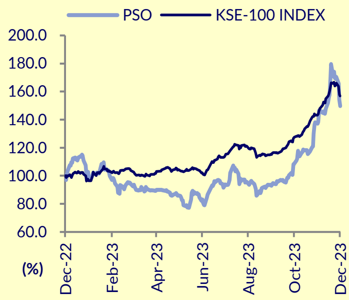
21 December 2023

Pakistan

Oil & Gas Marketing Co.

Reuters	**PSO.PSX**
Bloomberg	**PSO.PA**
Priced on 20 December 2023	
KSE100 @ 62,448.0	
12M hi/lo	PKR217.2/93.4
Dec-24 price target	PKR319.1
±% potential	+76.1%
Shares in issue	469.5m
Free float	45.0%
Mkt. cap	USD300.7m
3M ADV	USD2.7m

PSO vs KSE100 performance



Source: PSX, Bloomberg

Stage set for cashflow growth

Strong business model forms the foundation of its bright prospects

We initiate our coverage on PSO with a BUY call and Price target of PKR 319/sh. Our investment thesis is premised on PSO's improving cash flow generation on account of circular debt accumulation being arrested, thus unlocking its value. The company is the market leader among OMCs holding more than half of the industry's market share. It also boasts the largest infrastructure and retail network in Pakistan. PSO offers upside potential of 76% from the last close with a 5-year core earnings growth of 30%.

Steadfast to capture market share: From an operational perspective, the company's petroleum business continues to be its crown jewel. The company's operating performance is set to recover on the back of improved POL sales. The company is expected to not only hold its ground but also capture growth opportunities as the economy recovers. PSO is expected to capitalize on the implicit sovereign guarantees to bridge its working capital requirements. In a high growth environment, the costs of raising working capital will limit competition, especially players relying heavily on outside capital to finance their growth given that interest rates are expected to remain elevated. We anticipate the company to increase its market share in retail fuels without relying on retail network expansion.

Hedged against PKR depreciation: The company is hedged against PKR depreciation by the virtue of its position as the State benchmark for the current pricing mechanism. PSO also takes advantage of the synergy offered by its sister concern PRL, with 20% of its sourcing of POL products done through local procurement.

Cash flows set to increase: The gas circular debt has been a pressing issue for PSO, with all of its retained earnings locked in receivables. With the concurrent hike in gas tariffs and another hike on the cards, we expect the circular debt flow to be stalled thereby increasing its cashflows. This puts PSO in a good position to change its strategy from balance sheet management to providing attractive dividend returns again. The increased cashflow will give it the opportunity to decrease its burgeoning payables and borrowings and allow it the financial flexibility to pursue strategic growth opportunities.

Potential expansion of refining capacity: PSO's current refinery subsidiary, Pakistan Refinery has signed an upgradation agreement with OGRA under Brownfield Refinery Project. Moreover, it has also agreed to a sizable investment by United Energy to double its refining capacity. Investment in its sister concern will enable PSO to maintain its market leadership in the OMC industry.

Financials snapshot

Year till 30 Jun	FY22	FY23	FY24E	FY25E	FY26E
EPS	183.7	12.1	63.9	108.7	144.8
Core EPS	-10.0	16.5	56.3	95.2	115.8
P/E	-18.08	15.02	2.84	1.67	1.25
Core P/E	-18.08	11.00	3.22	1.90	1.56
DPS (PKR/sh)	10.0	7.5	10.0	10.0	15.0
Div. Yield	5.5%	4.1%	5.5%	5.5%	8.3%
P/BV	0.39	0.39	0.35	0.30	0.24
ROA	13.5%	0.6%	2.9%	4.5%	5.9%
ROE	40.0%	2.6%	12.4%	17.7%	19.5%

Source: Company Accounts, Alfalah CLSA Research

Poised to increase market share in retail fuels – Over the past decade, PSO has maintained its market leadership in MS and HSD, with its market share in the retail fuels remaining above the 50% mark over the period FY10-23. Based on the figures for 1QFY24, the market share is expected to hit the 55% mark by the end of FY24.

The past few years were marked by macroeconomic deterioration, hyperinflation and declining sales which had a detrimental impact on the OMC industry. With economic activity starting to pick up, PSO is well positioned to capture market share in a high growth environment. With the promise of cashflows improving & strategic nature of the company, PSO has the ability to secure financing if necessary to scale up its operations and pull itself out from distressed situations if the need arises. On the contrary, other OMCs are expected to struggle with expanding their operations with little room for increasing their working capital over the next few years until significant policy rate cuts materialize.

PSO's History

Phase I – Holding its ground as market leader

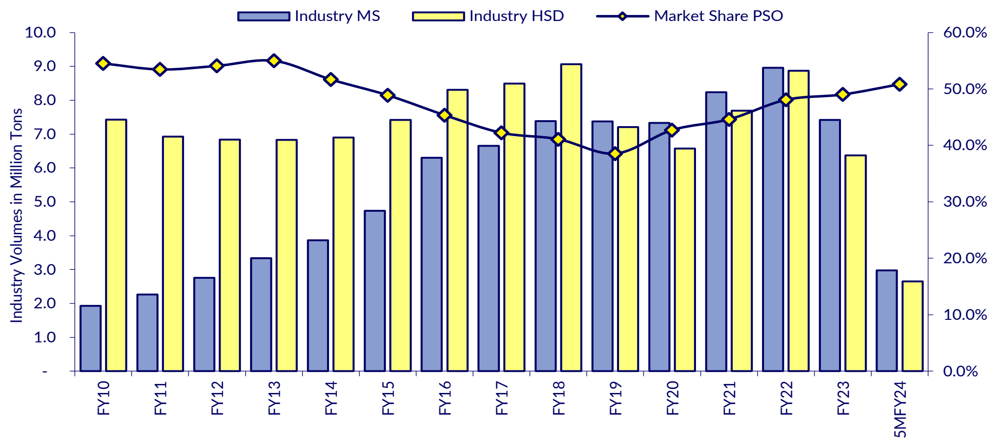
Even though the circular debt issue started from 2005, that did not stop PSO from increasing its retail fuel market share during the period FY10-13 and this was achieved without any aggressive retail network expansion. The company increased its retail network by 149 (~ CAGR: 1.35%) Although its retail network market share decreased by 200 bps to 52%, its retail fuel market share remained flat at 55.01% during the concerned period.

Phase II – Stiff Competition & Liquidity Crisis

However, in FY14, PSO faced severe liquidity crunch amid burgeoning receivables from the power sector. Owing to its special status, it was mandated to supply fuel to the Power Purchasers which suffered liquidity crisis of their own due to gap originating from non-recovery of power sector costs.

Figure 1

Industry MS, HSD, Market Share



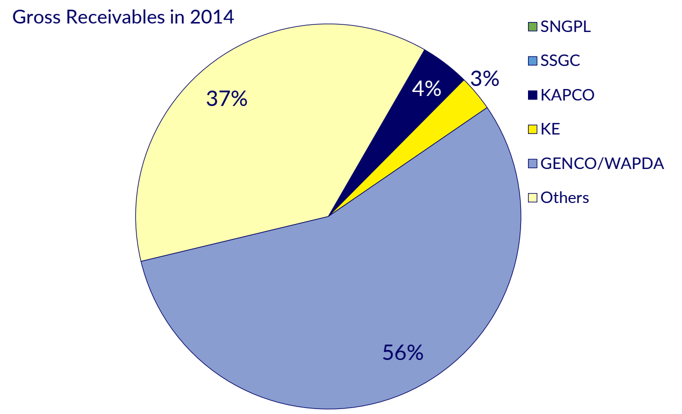
Source: Company Accounts, Alfalah CLSA Research

During the same period the government began the phasing out of furnace oil as a means of power generation. PSO's forte i.e., Furnace oil sales was constrained which had eased the circular debt emerging from the power sector. Furnace oil was substituted by PSO's growing LNG business however profits were significantly lowered i.e., transitioning from 3.5% margin on FO to 2.5% margin on LNG with 1%

fixed tax on revenues. From the period FY14 – FY23, PSO's gross receivables increased from Rs 175 bn to Rs 496 Bn.

Figure 2

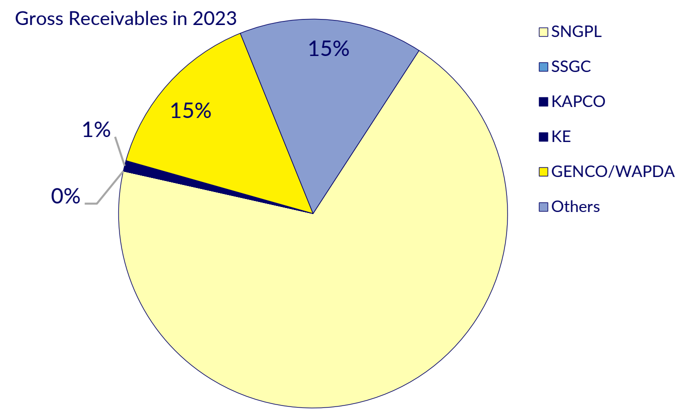
Gross Receivables in 2014



Source: Company Accounts, Alfalah CLSA Research

Figure 3

Gross Receivables in 2023



Source: Company Accounts, Alfalah CLSA Research

In stark contrast to PSO's liquidity challenges, with macroeconomic indicators improving the industry was flush with excess liquidity due to record low interest rates allowing new OMCs to set up shop. Note that in Dec'17, the policy rate was 6.25%. In face of aggressive competition and 9 entrants in the market, the company's market share was eroding and being captured by rivals leading it to fall at its lowest i.e., 38.55% in FY19.

Phase III – Getting back into the groove

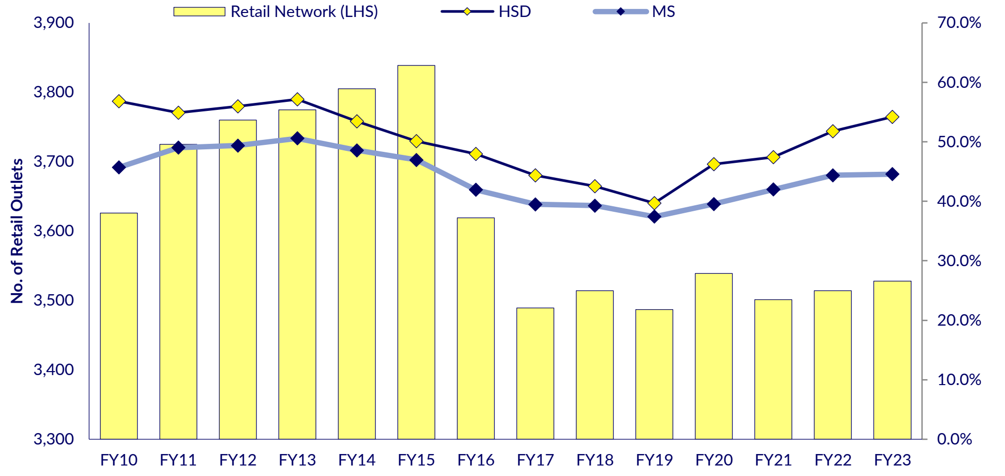
However, by FY20 economic fundamentals started deteriorating and the rupee lost its value by 34.7%. Not only did this exert considerable pressure on the foreign exchange reserves but also significantly increased the cost of POL imports for OMCs. Adding more to the misery, the State Bank unleashed successive hikes in the policy rate to stem the runaway inflation thereby increasing financing costs for OMCs. With working capital requirements increasing and limited credit lines available, the financial health of many OMCs was in jeopardy.

PSO was able to regain market share from FY20 onwards, as the State continued to provide it support necessary to fulfil domestic demand.

During the period FY20 – FY23, PSO increased its market share in retail fuels from 38.56% to 50.84%.Albeit the company suffers from the issue of circular debt, sovereign guarantee for its purchases allows it to scale up its operations when the need arises without the risk of debt default.

Figure 4

PSO Retail Network, MS & HSD Market Share



Source: Company Accounts, Alfalah CLSA Research

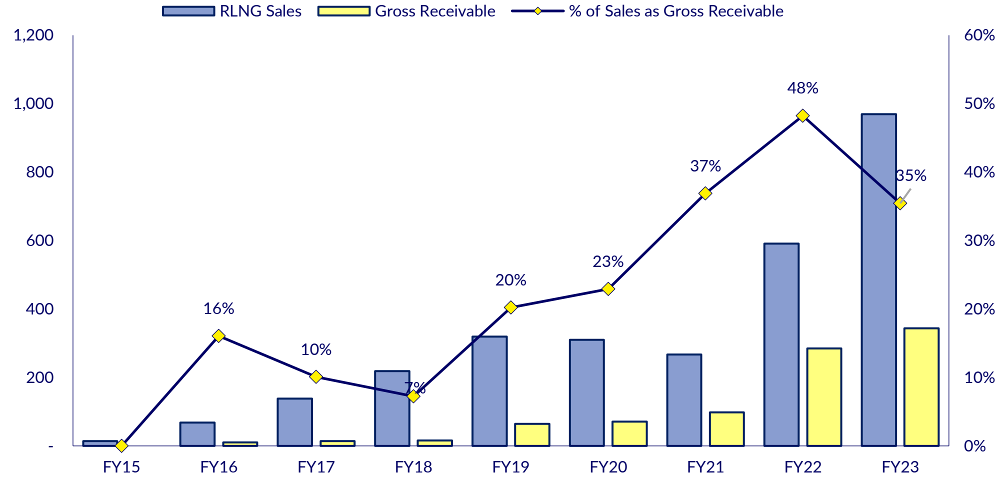
Enhancement of PRL's refining capacity in the pipeline: PSO currently has a 63% stake in Pakistan Refinery enhancing the backward integration of its supply chain through local procurement. This ensures more reliability in its domestic supplies than its peers with the exception of APL. Currently, its refinery subsidiary has signed an agreement with the United Energy Group for the upgradation of its refining capacity by 100% in exchange for equity stake in PRL. As of now, PRL has a refining capacity of 50,000 bpd producing 250,000 tons of MS and 600,000 tons of HSD.

Upon expansion, the refining capacity is expected to increase to 100,000 bpd increasing production of MS and HSD to 1.5 million tons and 2 million tons respectively. Enhancement in PRL's refining capacity would allow PSO to increase its local procurement to bridge the demand-supply gap in a high growth environment without increasing its exposure to foreign creditors. Moreover, PRL has also signed an agreement with OGRA under the government backed Brownfield refinery policy for upgradation of its facilities for production of Euro 5 compliant fuels.

Circular Debt: The Elephant in the Room: As of Sept'23, PSO's LNG segment represents 27% of its net revenue, while representing 70% of its gross receivable owed by SNGPL (PKR 787/sh). Consequently, it contributed PKR5.06Bn of loss to the bottom-line. LNG is a relatively a low margin segment compared to FO, moreover the unfavourable tax regime continues to eat through its profits. If the company earns 2.5% per MMBtu, the 1% final tax reduces this margin to just 1.5%. Late payment charges owed by SNGPL including earnings being trapped in receivables has effectively turned the LNG business into a loss-making segment.

Figure 5

Gross Receivables as % of RLNG Sales



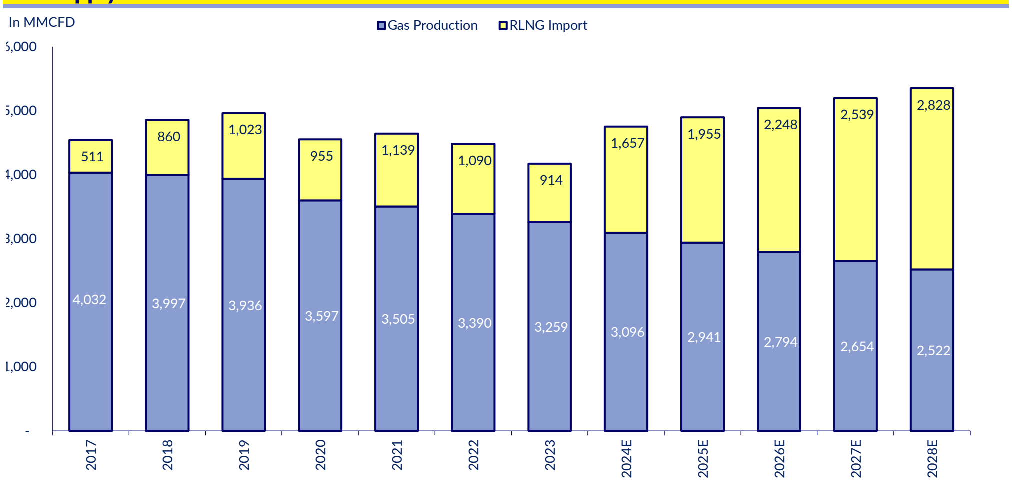
Source: Company Accounts, Alfalah CLSA Research

Shedding light on the current gas crisis in Pakistan, indigenous gas reserves stand at 19.5 trillion cubic feet as of FY22. Gas production has been steadily declining over the past 5 years to 3,390 mmcfd and is expected to decline further at a rate of 5-7% per annum. Assuming demand growth of 3% per annum, RNLG import requirement is expected to jump by a CAGR of 25% between FY23-FY28. However, the realization of these imports will be contingent on space in the state's current account.

At present, PSO has two G2G contracts with Qatargas for 9 cargoes/month (~790 mmcfd/month). Whereas PLL also procures LNG cargoes on prevailing spot prices. A recent tender by Pakistan LNG yielded a price of USD18.46/mmbtu for cargoes in Jan-24, this is well above the domestic well head prices which currently averages between USD3.2–5.6/mmbtu.

Figure 6

Gas Supply & Demand



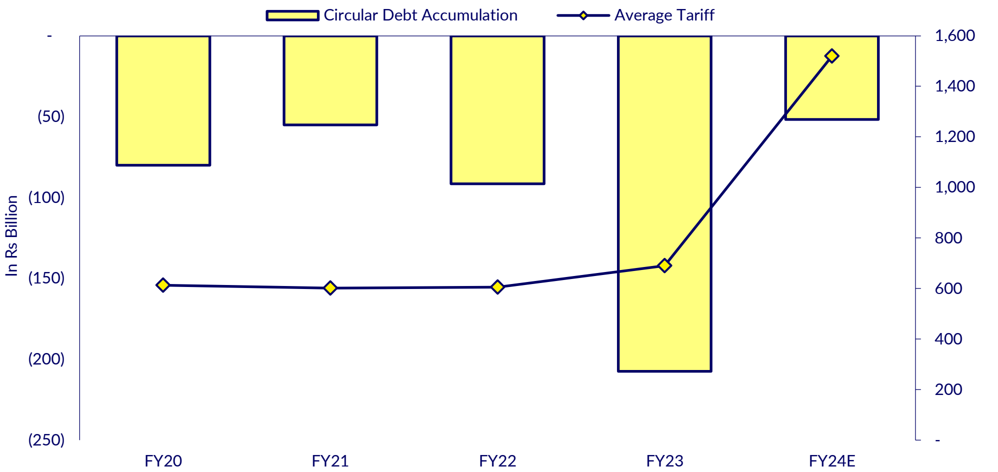
Source: Energy Yearbook, Alfalah CLSA Research

Most of the imported RLNG has historically been diverted to the power and industrial sector, however, due to shortage of natural gas, RLNG is now being diverted to the domestic sector which will continue to increase as local production declines. Moreover, due to pricing inefficiencies the cost of RLNG diverted is not recovered from the domestic consumers.

Revision to the gas tariff by 35% in Jan-23 and another hike in Nov-23 by 65% are promising as the build-up of circular debt has decreased as shown. With another hike along the way in Jan-24 for rebasing, we expect PSO's cashflows to increase as cashflows of both SNGPL and SSGC enter the positive territory and the growth of circular debt is arrested. Moreover, with IMF's demands for structural reforms and limited fiscal space left for subsidies, there is no way out of the conundrum except gas price rationalization.

Figure 7

Estimated Gas Circular Debt Accumulation



Source: Company Accounts, OGRA, Alfalah CLSA Research

Crackdown on smuggling: Smuggling has always been a thorn on the side of the OMC industry with smuggled HSD and lubricants from Iran proliferating the market. As per estimates, the aggregate HSD demand in FY23 clocked around 11.485 Mn tons declining by 1.25%, however, HSD sales volumes in the formal sector declined by a wider magnitude of 28.6%. We estimate that the contribution of smuggled HSD towards meeting aggregate demand is between 35-45%.

Rampant inflation had been causing an uptick in smuggling activity with arbitrageurs trying to take advantage of price distortions among the formal and informal market. Going forward, we have remained conservative in our estimates of smuggling activity slowing down, which would open up the market for capture by players in the formal sector. Based on revised estimates, the 5-year CAGR for MS and HSD sales in the formal sector are estimated to be 6.19% and 4.39% respectively.

The State remaining consistent with its firm stance on cross-border smuggling would be a boon for the lubricant and OMC sector in general. Currently MS and HSD sales for PSO are estimated to grow at a 5-year CAGR of 7.40% and 4.89% respectively. In case, anti-smuggling drive ramps up, we expect improvement in sales of both HSD and lubricants.

Keeping the market share constant, if smuggling activity decreases by 10%, the increase in volumetric sales of HSD and lubes combined will have an EPS impact of Rs 10.7/sh.

Price competitive sourcing of diesel through long-term contracts: Being the country's flagship energy company PSO has G2G agreements in place for procurement of HSD. PSO has an extended credit facility from Kuwait Petroleum Corporation for HSD procurement. The nature and terms of the agreement ensure that PSO receives stipulated supplies consistently, while minimizing payment and procurement contracting risks. Moreover, OGRA's pricing mechanism incorporates the weighted average of the KPC premium and spot market premium capped at $15/bbl. Since, the KPC premium paid by PSO is less than the tendered premium, PSO gets a competitive edge over other OMCs.

Implementation of axle load regime – what does it mean for PSO?

With much ado, the axle load regime (National Highway Policy 2000) has been implemented to its full effect on vehicles at Karachi Port Trust and motorways. Earlier, trucks were overloaded beyond recommended capacity limit to save on transportation costs. But with the implementation of the regime, the loads on trucks have been reduced by 31%. A 4-Axle Single truck used to carry 60 tons but is now mandated to carry 41.5 tons due to the regime.

It is pertinent to note that many truckers and tankers in Pakistan use Iranian diesel which is sold at a price differential of PKR25-30 from the retail price. With the crackdown on smuggling, the volume of Iranian diesel available for truckers is shrinking forcing them to purchase HSD through legal channels.

Currently the transportation sector consumes 88.5% of the total HSD sold via formal channels in Pakistan. The implementation of this regime is expected to increase HSD consumption which would translate to higher sales for PSO. This can be illustrated by the means of an example. Say the weight of an average two axle truck is 4.6 tons and before the implementation it was carrying 25 tons worth of goods bringing the total weight to 30 tons. It carries the goods from Karachi to Lahore (~ average distance - 1214km)

Figure 8

Axel Load Limit Implementation

	Before	After	Variance
Kerb Weight (A)	4.55	4.55	
Load (B)	25.00	12.95	-48%
Gross Weight (A+B)	**29.55**	**17.50**	**-41%**
Estimated Fuel Consumption (ltr/km)	518.55	322.92	-38%
No. of trips required	1.00	1.93	
Voyage Freight Cost (In Rs)	**95,000**	**75,289**	**-21%**
Total Fuel Consumption per (Ltr/Ton)	**20.74**	**24.94**	**20%**

Source: Company Accounts, Alfalah CLSA Research

As per the VOC report by the National Transport Research Centre, the average fuel consumption of a two-axle truck (Hino FM8JKKB Truck 4x2) is 266 litres per 1000 km. Taking this into consideration, when the truck is overloaded, consumption is 519 litres. Implementation of the regime results in lowering of fuel consumption to 323 litres. Considering it would take two trips to carry the same load, the total fuel consumption for two trips comes to around 623 litres, 20% higher on per ton basis.

The implementation of the axle load regime has far-reaching implications. An estimated 150,000 trucks are idle, we expect that the implementation will bring idle trucks in running which translates to greater fuel consumption. This is a positive for PSO that has significant advantage to capture retail fuel market share due to its large network and storage capabilities. Taking FY23 HSD volume as benchmark and PSO's market share stable, 20% increase HSD consumption of the transport sector would translate to an impact of Rs 7.42/Shr.

Hedged against Exchange Rate Volatility: PSO is exposed to exchange rate volatility on account of its exposure to foreign creditors. The company's exchange rate losses incurred on foreign credit facilities are hedged via OGRA's pricing mechanism mitigating the impact of adverse currency movements. Whereas exchange rate losses incurred on FE-25 borrowings are the responsibility of the government, shielding PSO from what could be catastrophic losses considering the quantum of exposure. Disbursement against losses is decided during the state's annual budgetary cycle.

Storage rehabilitation and expansion: The company holds 46% of the industry's fuel capacity and has the largest network of storage infrastructure. By FY24, PSO is expected to add 91,000 Tons to its existing storage capacity of 1.14 million tons. Currently three storage depots are under construction in Faisalabad, Mehmoodkot and Faqirabad which will increase its overall storage capacity by ~8%. The capacity upgrade entails adding 67,000 Tons for MS and 24,000 tons for HSD storage which would enhance the company's competitive position.

Potential Diversification into the Power Sector: The government has 25% stake in PSO, which makes an ideal candidate for an inter-company equity swap arrangement to settle the company's burgeoning receivables. Three proposals currently are up for discussion to convert PSO's nonproductive receivables into productive income-generating assets.

- Acquiring stake in Nandipur Power Plant & Guddu Power Plant – NPP is a 525MW thermal power plant that operates on RLNG and GPP/GENCO-II is a 1,762 MW gas fired power project that operates on indigenous gas.

- Acquiring stake in Gujranwala Electric Power (GEPCO) – The company proposed acquiring GEPCO, which would improve the vertical integration of its operations. The deal if materialized can diversify PSO's revenue stream.

- Shares of MARI & OGDC – This is another proposal made by PSO for the settling of government sponsored receivables. Both entities are high yielding assets and would result in significant cashflows. However, we believe that the likelihood of this materializing is low.

Nandipur and Guddu Power Plant get a fixed rate of return of 15% each, this return is at the lower end of the spectrum when compared to efficient coal-powered plants such as Thar and Thal Nova that offer 34.49% and 30.65% respectively.

Whereas in GEPCO the rate of return varies due to the multiyear tariff regime. This is till June 2025. The tariff being performance based requires GEPCO to achieve certain targets to receive revenue streams based on known tariffs. Prevailing rate of return is around 21.2%.

Timely Margin Revisions to Propel Earnings: In 1QFY24, the ECC approved a 31% hike in OMC margins on MS and HSD from PKR 6.00/ltr to 7.87/ltr and PKR 7.88/ltr respectively. This was implemented in four fortnightly installments. The impact of this revision would translate to an EPS impact of PKR 22/sh based on FY23 sales volumes.

There are efforts underway to create a viable mechanism for margin revision by linking it to the consumer price index, this would ensure the sustainability of earnings growth.

Inventory gain/loss: A Double-Edged Sword: Because of its affiliation with the government, PSO is mandated to keep 5 days of strategic POL product reserves. This is in addition to OGRA mandated inventory of 21 days. Moreover, PSO faces the issue of dead stock within the 787km PAPCO pipeline used to transport white oil. The sheer volume of POL products held by PSO makes it extremely vulnerable to volatility in crude oil prices. Moreover, smaller OMCs skimping on maintaining inventory levels, force PSO to take up the responsibility of maintaining adequate reserves. Owing to this, the company has limited room to adjust its inventory level. Hence, PSO enjoys high inventory gains in periods of elevated oil prices and suffers from inventory losses vice versa.

For every 5% change in crude oil prices, keeping other factors constant the impact of inventory gains/losses is ~Rs 13.4/sh.

Crude Oil Price Outlook: Global crude oil prices have fallen by 3.2% to USD82.19 during the fiscal year to date after hitting high of USD99.13 on 15th September 2023. Plentiful global supply against the backdrop of continued weak demand is responsible for the decline in crude oil prices, prompting OPEC+ to decrease output by 2.2 million bpd to support oil prices till the end of 3QFY24, this includes Saudia Arabia extending its current voluntary cut of 1 million bpd into early 2024.

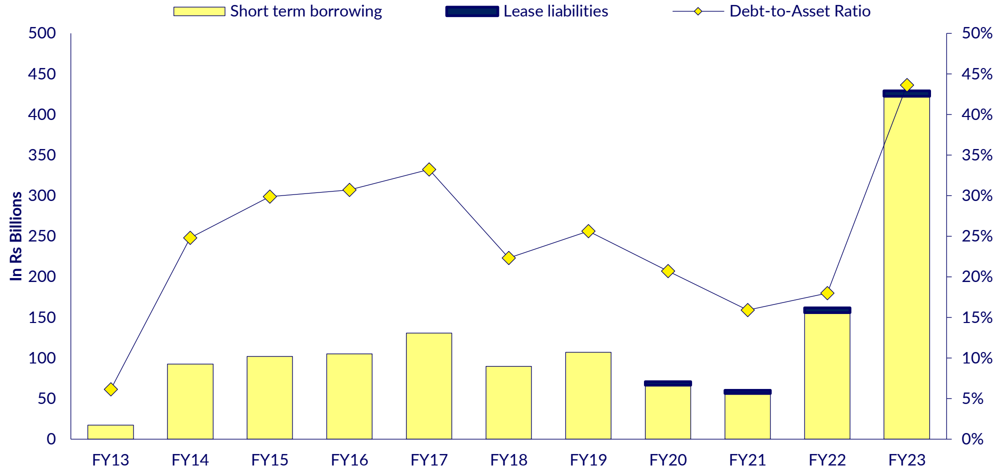
An effective compliance of output cuts is expected to create conditions for an oil price rally. On the domestic front, the POL ex refinery prices have fallen by 17% to date from 1QFY24 on account of global decline in oil prices couple with the rupee strengthening against the greenback. We opine, that although earnings for FY24 would suffer some hiccups due to inventory losses but it should be mitigated by increased demand thereby propelling PSO's retail fuel sales.

Furnace oil – Is a revival nearby? In our analysis, we have assumed furnace oil offtakes will continue to decline as the government plans to phase out furnace oil usage by 2031. However, should crude oil prices fall below $ 75/bbl, furnace oil will become an economically feasible source of power of generation. We expect furnace oil offtakes by power producers to increase if the output cut does not hold because of rising U.S inventories, consequently having a positive impact on PSO's bottom line. In FY23, furnace oil consumption by the power sector was recorded at 272,705 M. Tons (~ 38.8% of total FO consumption). Every 10% increase in furnace oil offtake due to this tailwind is expected translate to an EPS impact of Rs 0.53/sh.

Debt Management: As of FY23, the company's debt-asset ratio stands at 43.66% and finance costs take up almost 60% of its operating profit. With circular debt accumulation being reduced through structural reforms, we expect PSO to gradually deleverage its balance sheet and reduce its debt load, giving it more room to spend on expanding its business and upgrading its infrastructure.

Figure 9

Debt Position FY13 – FY23



Source: Company Accounts, Alfalah CLSA Research

Earnings growth anticipated: Core earnings (excluding inventory gains and losses) are poised to steadily increase in the next five years. As the economy moves towards recovery, we expect volumetric sales to increase. PSO has ample opportunity to capture market share owing to its retail network and storage capacity. Earnings growth is expected at a 5-year CAGR of 30%.

Moderate dividend yield with upside potential: PSO remains undervalued trading at a forward P/E of 2.84. Moreover, with its growth potential and low earnings risk on the back of increased cashflows, we expect its dividend payout to stabilize, resulting in a dividend yield of 5.5% in FY24/FY25.

PSO's valuation: Another Perspective: On 12th December 2023, Aramco announced to buy 40% equity stake in Gas & Oil Pakistan for USD 100 million, this puts the value of GO around USD 250 million. APL is comparable to GO in terms of storage capacity, albeit has higher market share and a smaller retail network. The market currently values APL at USD 178 million.

PSO is a giant compared to both companies. It has 2.5x times larger retail network than GO and 5x times the storage capacity. Moreover, PSO is the market leader representing more than half of retail fuel sales yet it has a market cap of USD 350 million, this is only 39% greater than what GO is currently valued. This shows how PSO is massively undervalued by the market.

Figure 10

Asset Valuation

In FY24 - YTD	PSO	GO	APL
Retail Network	3,528	1,100	764
Storage Capacity	1,230,000	205,200	209,897
Market Share MS	46.6%	4.3%	9.0%
Market Share HSD	55.6%	5.9%	9.3%
Total Market Share	50.6%	3.4%	10.1%
Market Cap (in USD Mn)	**349.88**	**250.00**	**178.77**

Source: Company Accounts, Alfalah CLSA Research

Recommendation

IMF's structural reforms now being implemented in letter and spirit; circular debt accumulation has effectively halted. This is expected to unlock value for PSO, as future retained earnings will no longer be trapped in receivables giving the company the financial flexibility to pursue strategic growth opportunities. We expect PSO to post earnings of PKR64/109/sh in FY24/25 respectively. The scrip offers an upside potential 76% on the Dec-24 Target Price of Rs 319/sh.

Figure 11

Valuation Snapshot

	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
FCFE	69,684	18,454	(833)	158	19,410	41,006
Terminal Value						236,922
Risk Free Rate						16%
Terminal Growth Rate						4%
Beta						1.00
Required Rate of Return						22.0%
PV of cashflows						31,629
No. of shares (in Mn)						469
Target Price - Dec'24						**319.1**

Source: Company Accounts, Alfalah CLSA Research

Key Valuation Methodology and Triggers

PSO's Dec-24 Target Price Rs 319/sh is based on Free Cash Flow to Equity valuation method using core earnings (ex-inventory gain/loss)

Upside Risk

- Increase in crude oil prices restoring the global demand-supply balance
- Improvement in OMC margins and better than expected MS & HSD sales
- Increase in sales of high-margin products such as lubricants and LPG
- A spin-off /equity carve out that caters to RLNG imports exclusively.

Downside Risk

- Steep decline in crude oil prices will depress earnings due to inventory losses
- Delayed margin revisions
- Relapse of HSD smuggling.
- After acquisition of Shell Pakistan, SHELL might emerge to be a formidable competitor
- Delay in gas price revision
- Acquisition of GO by Aramco would boost its growth, making it a threat to other OMCs
- Exchanges losses on foreign credit facilities are no longer covered by the State.

Analyst certification

The research analyst(s) involved in the preparation of this report, certifies that (1) the views expressed in this report 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. Furthermore, it is stated that 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. Additionally, the research analyst or its close relative have neither served as a director/officer in the past 3years nor received any compensation from the subject company in the past 12 months.

Important disclosures/disclaimers

The report has been prepared by Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) and is for information purpose only. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources, believed to be reliable and in good faith. Such information has not been independently verified and representation expressed or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments.

Research Dissemination Policy

Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) endeavours 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.

Company Specific Disclosures

Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) 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. However, BAFL and IFC, being associates of Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD), may trade or have significant financial interest, under normal course of business, in the subject company from time to time. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) 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 customers. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD), 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 issuers 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. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) may have recently underwritten/or in the process of underwriting the securities of an issuer mentioned herein. Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) may also have provided/providing advisory services to the issuer mentioned herein.

Rating System

Alfalah CLSA Securities (PVT) LTD. (Formerly Alfalah Securities (PVT) LTD) uses a 3-tier rating system i.e Buy, Hold and Sell, based on the level of expected return. Time horizon is usually the annual financial reporting period of the company. A Buy rating is assigned to any company when its total return exceeds 15%. A Sell rating is issued whenever total return is less than 0% and for return in between the 2 ranges, Hold rating is meted out. Ratings are updated on a daily basis and can therefore change accordingly. 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.