Market Strategy

‘Tari-ffied’ times call for smart moves

08-Apr-2025

REP - 300

Best for Research: ‘24
Best for Diversity & Inclusion: ‘24
Best Investment Bank: ’23

Best Brokerage House: ’23 – ‘21
Best Corporate Finance House: ’23 - ‘13
Best Economic Research House: : ’23 – ‘21

Best Brokerage House: ‘23

Best Gender Equality Bond: ‘24
Best Equity Advisor: ‘21

AHL Research
D: +92 21 32462742
UAN: +92 21 111 245 111, Ext: 248
E: research@arifhabibltd.com

Best Securities House: ‘23
Best Investment Bank: ’23

Best Investment Bank:’22

Top 25 Companies (‘17-’19)

Excellence Award Leading Brokerage House for RDA ’21

Trump calls tariffs *medicine*… but the side effects are painful

Since his return to the Oval Office, US President Donald Trump has wasted no time in reshaping America's trade dynamics. Among the most sweeping of his early measures is a blanket 10% reciprocal tariff on all imports, alongside steeper tariffs targeting 60 nations with whom the US runs sizable trade deficits. These aggressive moves mark a bold pivot toward protectionism under the banner of "trade fairness." Pakistan, a key textile exporter to the US, finds itself caught in the crossfire. A 29% tariff has been levied on its exports — a substantial blow considering the US absorbed USD 5.8bn (or 18.2%) of Pakistan's total exports last year, with textiles accounting for over 90% of this figure. The impact is expected to ripple across the textile value chain, from garments and home textiles to cotton and leather goods.

Competitive Chaos: A threat and an opportunity

Despite the clear threat, the global tariff upheaval is not without its silver linings. Regional competitors such as Bangladesh (37%), Vietnam (46%), and Sri Lanka (44%) have been hit with even harsher tariffs, leveling the playing field and, in some cases, tilting it in Pakistan's favor. If Pakistan can maintain relatively lower production costs while improving quality and delivery timelines, it could emerge as a viable alternative for US importers looking to rebalance supply chains. However, seizing this moment requires agility and foresight, Pakistani exporters must:

- Elevate product quality and consistency to meet increasingly demanding buyers.
- Streamline logistics and supply chains to ensure timely deliveries.
- Invest in innovation and value-addition, shifting focus from commodity-based exports to design-driven, high-margin segments.

Government's response: Mitigation in motion

Recognizing the high stakes, a high-level delegation formed by the Government of Pakistan is preparing for negotiations with US officials, as per media sources. Simultaneously, strategic committees have been formed to assess sectoral impacts and recommend tailored support mechanisms. Beyond short-term diplomacy, the government could also consider broader strategies to future-proof the export base, including:

- **Diversification of Export Markets:** Lessening dependence on the US by expanding into Africa, Latin America, Central Asia, and the GCC, where demand for textiles and other Pakistani goods is on the rise.
- **New Trade Agreements:** Exploring preferential trade arrangements in high-potential sectors like sports goods, surgical instruments, and rice, where Pakistan holds a natural advantage.
- **Industrial Upgrades and Incentives:** Offering financial and technical incentives to textile firms for adopting modern machinery, eco-friendly processing, and design innovation, thereby enhancing unit value and marketability. Although this is only possible in long term, we view.

Exhibit: Country Wise Tariffs

Country	USA Tariff
Cambodia	49%
Vietnam	46%
Bangladesh	37%
China	34%
India	26%
Turkey	10%

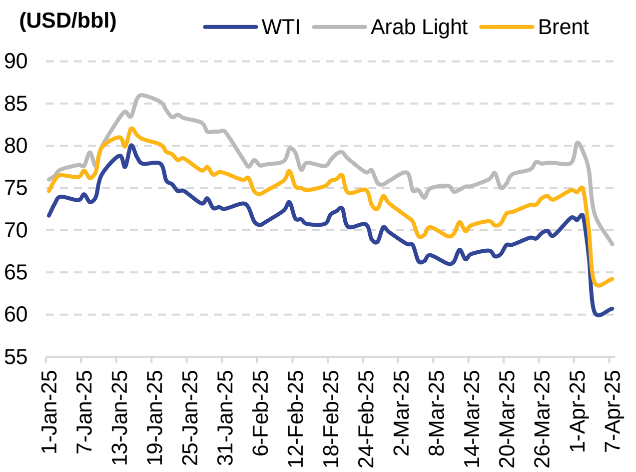
Source: AHL Research

Exhibit: Country Wise Tariffs

Country	Cost Advantage for Pakistan
Cambodia	20.0%
Vietnam	17.0%
Bangladesh	8.0%
China	5.0%
India	-3.0%
Turkey	-19.0%

Source: AHL Research

Exhibit: Trend of WTI, Arab Light and Brent



Source (s): Bloomberg, AHL Research

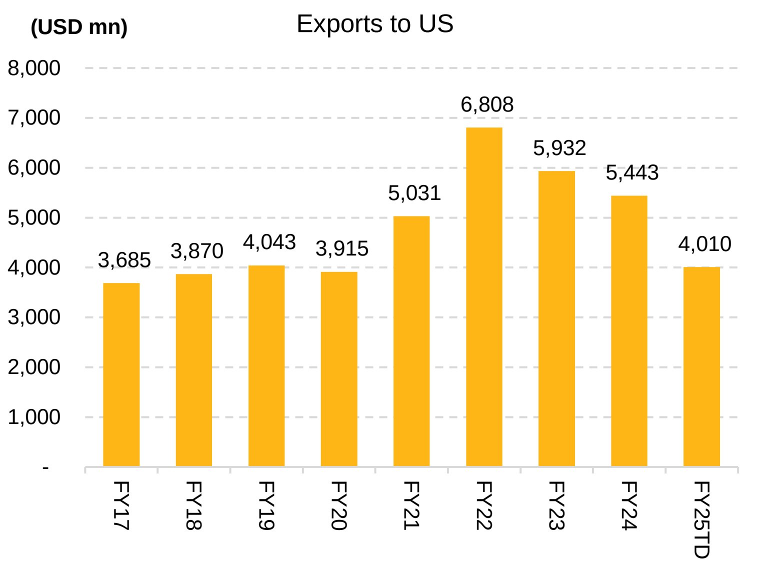
A breather from the oil front

Interestingly, the tariff announcements sparked fears of a broader global trade war, triggering volatility in commodity markets. Crude oil prices tumbled below USD 65.00/bbl, offering a rare silver lining for Pakistan. Given the country's high dependence on imported energy, the drop-in oil prices could ease pressure on the current account and import bill, partially offsetting the losses from export slowdowns.

Looking ahead: From turbulence to transformation

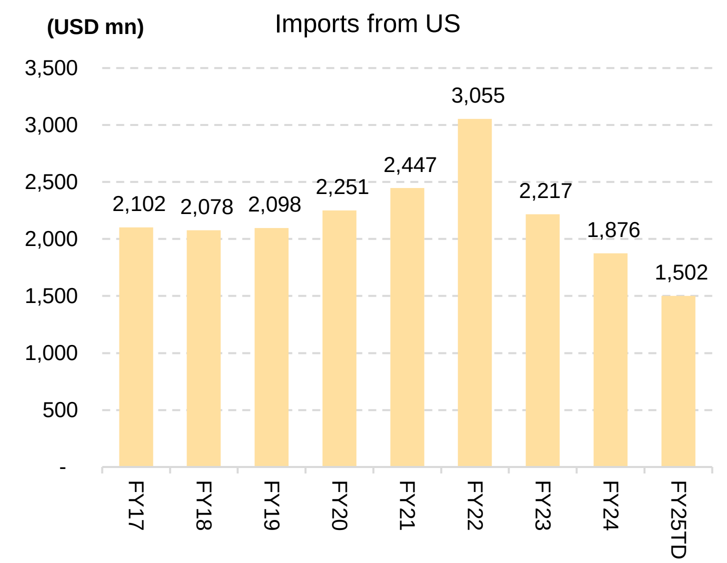
While Trump's tariff blitz may rattle Pakistan's short-term trade outlook, it also offers an impetus for long-overdue structural reforms in the export sector. By embracing a proactive, diversified, and innovation-led strategy, Pakistan can not only weather the storm but chart a course toward more resilient and diversified trade relationships. This may well be the inflection point where Pakistan rethinks its export strategy — from over-reliance on textiles and the US to a multi-sector, multi-destination approach that's better equipped for a volatile global environment.

Exhibit: Historical Trend of Pakistan's exports to USA



Source (s): SBP, AHL Research

Exhibit: Historical Trend of Pakistan's imports from USA



Source (s): SBP, AHL Research

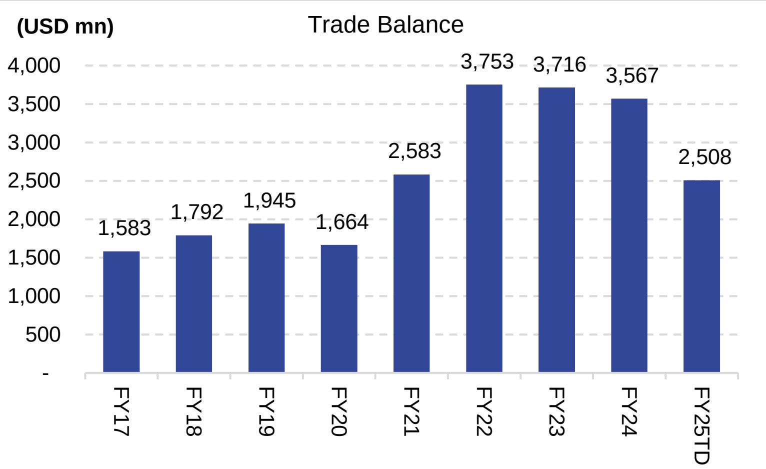
Pakistan faces the heat of 'reciprocal' tariffs

As part of his protectionist drive, President Trump has implemented a blanket 10% reciprocal tariff on all imports into the United States. More significantly, the administration has imposed even higher tariffs on 60 countries that run substantial trade surpluses with the US, reflecting a renewed emphasis on "trade fairness" and economic nationalism. Major trading partners such as China now face a cumulative 54% tariff (including a fresh 34% hike over the existing 20%), while the European Union has been hit with a 20% tariff. In Southeast Asia, countries like Vietnam, Laos, and Cambodia are facing rates between 46% and 49%. On the other hand, Mexico and Canada remain largely exempt from the new tariffs under the USMCA framework, though non-compliant exports still attract a 25% duty. Among Asian nations, Pakistan has been slapped with a 29% tariff — a heavy blow considering the importance of the US as an export destination.

In 2024, the United States accounted for roughly 10% of global imports— a figure that signals the importance of trade diversification for countries heavily reliant on US markets. Pakistan's exports to the US totaled USD 5.8bn over the past year, representing 18.2% of its total exports. The vast majority of these,over 90% — were textile-related products, including made-up articles, knitwear, woven garments, and cotton-based goods. Other exports included leather products, optical equipment, and medical instruments. Pakistan maintains a trade surplus with the United States. In FY25TD, Pakistan's exports to the US have reached USD 4bn, while imports from the US have amounted to USD 1.5bn — resulting in a positive trade balance of USD 2.5bn. This indicates that Pakistan remains a net exporter to the American market. Other sectors, however, have shown varying trends. Food exports declined marginally from 3.30% in FY24 to 3.20% in 8MFY25. The steel sector's share remained unchanged at around 1%, while cement exports showed modest growth, increasing from 0.30% to 0.50% in FY25TD.

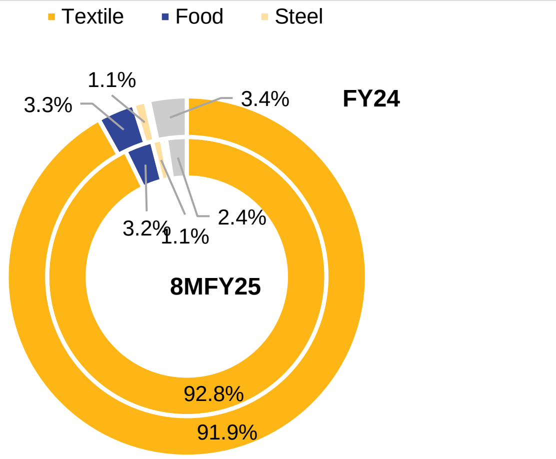
Given the sheer importance of the US as a trading partner and the concentration of Pakistan's exports in textiles, the 29% tariff poses a serious threat to the country's export earnings. In response, Pakistan is taking proactive steps. A high-level delegation is being sent to negotiate with US officials, and various strategy committees have been formed to assess the fallout and craft a path forward, as per media sources. Should these negotiations fail to yield relief, the government is expected to explore alternate strategies including diversifying export destinations to reduce overdependence on the US, incentivizing innovation, and encouraging free or preferntial trade agreements.

Exhibit: Historical trend of **t**rade balance btw USA and Pakistan



Source (s): SBP, AHL Research

Exhibit: Sector Wise Breakup of Pakistan Imports to USA



Source (s): SBP, AHL Research

As oil plunges Pakistan gains a silver lining

During Trump's inauguration ceremony, he had declared national energy emergency and pledge to boost US's fossil fuel output, which sparked concerns related to potential oversupply in the market and resulted in declining trend in oil prices. A sharp decline in oil prices was witnessed post announcement of new US tariffs and an unexpected OPEC+ output increase. Since 20th Jan'25, the price of WTI, Brent, and Arab Light has declined by 22%, 20%, and 20%, respectively. Currently, WTI, Brent, and Arab Light price stands at USD 60.70/bbl, USD 64.21/bbl, and USD 68.34/bbl, respectively.

Oil Slide brings relief to import pressures

Pakistan's import bill is heavily skewed towards oil, making the country highly vulnerable to fluctuations in global crude prices. However, the recent significant decline in international oil prices offers a potential breather for Pakistan's external account position. Currently, petroleum product imports stand at 6.9mn tons, and we project this figure to rise to 10.4mn tons in FY25. This translates to approximately 78.2mn barrels. With a decline of USD 7.00/bbl in global oil prices, Pakistan's petroleum import bill could be reduced by ~USD 547.6mn.

In parallel, petroleum crude imports are currently at 6.6mn tons, with expectations of a rise to 9.7mn tons in FY25, equivalent to around 72.8mn barrels. The same USD 7.00/bbl reduction here implies an additional USD 518.1mn in import cost savings. Combined, the potential savings from petroleum products and crude oil imports stand at over USD 1.06bn.

Moreover, LNG imports, which are also benchmarked to crude oil prices under long-term contracts, are projected to reach 338mn mmbtu in FY25. A USD 7.00/bbl decline in oil prices typically reduces LNG prices by USD 0.84/mmbtu, potentially saving Pakistan another USD 290mn on its LNG import bill.

Exhibit: Impact of USD 7.00/bbl decline in oil price on import bill

USDmn	Old Price	New Price	Reduction in import bill
Oil (USD/bbl)			
Petroleum products	76.3	69.3	-548
Petroleum crude	72.8	65.8	-518
Gas (USD/mmbtu)			
LNG	10.0	9.2	-291
Total Impact			**-1,356**

Source (s): AHL Research

Import bill sensitivity

Given the volatility in global crude oil prices, we assess the sensitivity of Pakistan's oil import bill under various price scenarios. Our base case assumes Brent oil at USD 65.00/bbl, with alternate cases modeled at USD 60.00/bbl, 55.00/bbl, and 50.00/bbl.

Under the base case scenario, Pakistan's total oil import bill for FY25 is projected at USD 15.4bn. However, a decline in international crude prices could result in significant savings. Hence, a USD 5.00/bbl drop to USD 60.00/bbl would reduce have an annualized impact on oil bill of USD 867mn, while a further drop to USD 55.00/bbl and 50.00/bbl could save USD 1,734mn and USD 2,602mn, respectively.

This sensitivity becomes even more relevant in light of Pakistan's persistent current account pressures and limited FX reserves.

Exhibit: Sensitivity of Oil Bill

USD mn	Base Case	Case-1	Case-2	Case-3
Crude Oil Assumption (USD/bbl)	**65.00**	**60.00**	**55.00**	**50.00**
Mar-25	1,242	1,176	1,109	1,043
Apr-25	1,296	1,226	1,156	1,086
May-25	1,276	1,201	1,127	1,053
Jun-25	1,265	1,186	1,107	1,028
Jul'24-Feb'25	**10,304**	**10,304**	**10,304**	**10,304**
Total Import Bill (FY25e)	**15,382**	**15,093**	**14,804**	**14,515**
Impact		**-289**	**-578**	**-867**
Annualized Impact		**-867**	**-1,734**	**-2,602**
Volume Assumptions	**Crude (K tons)**	**Products (K tons)**	**LNG (mmbtu)**	
Mar-25	801	978	25,284,000	
Apr-25	989	884	25,284,000	
May-25	1,004	854	25,284,000	
Jun-25	1,089	762	25,284,000	
Jul'24-Feb'25	**6,580**	**6,954**	**236,559,000**	
Total Import (FY25e)	**10,463**	**10,432**	**337,695,000**	

Source (s): SBP, PBS, AHL Research

PDL Collections Under the Spotlight

Pakistan imports ~USD 15.4bn worth of crude oil and petroleum products, including LNG. Over the last three trading sessions, crude oil prices have dropped significantly from USD 74.95/bbl to USD 63.18/bbl, reflecting a 16% decline. This sharp fall in international oil prices has the potential to eventually bring down petroleum product prices in Pakistan.

However, instead of fully passing on the benefit to consumers, the government has recently increased the PDL from PKR 60.00/liter to PKR 70.00/liter. The additional revenue of ~PKR 53bn generated from this move is intended to be used to reduce the electricity tariff.

In our view, if international oil prices continue to fall, the government is likely to further increase the PDL to maintain end-consumer prices at current levels. As a result, the decline in global oil prices may have a neutral impact on CPI.

To estimate the potential for additional PDL collection under different oil price scenarios, we have conducted a sensitivity analysis.

Our analysis indicates that if international oil prices drop to USD 50.00/bbl, the ex-refinery POL prices in Pakistan are expected to decrease by PKR 28.00/ltr. In response, the government is likely to increase the PDL by PKR 28.00/ltr, potentially generating an additional PKR 136bn in revenue. This extra revenue could be utilized to reduce the electricity tariff by PKR 4.46/KWh.

Exhibit: PDL Collection Sensitivity

PKR bn	Current	Case-1	Case-2	Case-3
Crude Oil (USD/bbl)	**65.00**	**60.00**	**55.00**	**50.00**
PDL (PKR/liter)	**80.00**	**86.00**	**92.00**	**98.00**
9MFY25E	806	806	806	806
Apr-25E	101	105	109	113
May-25E	133	143	153	163
Jun-25E	137	147	157	167
Total (FY25e)	**1,177**	**1,201**	**1,225**	**1,249**
Additional*	**88**	**112**	**136**	**160**
TDS 4QFY25 (PKR/KWh)	**2.87**	**3.67**	**4.46**	**5.26**
Volume Assumptions	**HSD (K tons)**	**Petrol (K tons)**	**Total (K tons)**	
9MFY25A	5,857	7,483	13,339	
Apr-25E	581	759	1,340	
May-25E	796	868	1,664	
Jun-25E	706	1,002	1,707	
Total (FY25e)	**7,939**	**10,111**	**18,051**	

Source (s): OCAC, AHL Research, *from PKR 60/liter

Impact on OMC companies

Brent crude has slipped to its lowest level since 2021, reaching USD 64.21/bbl. This decline in oil prices is expected to result in inventory losses for several companies in the listed OMC space. To gauge the extent of the impact, we have conducted a sensitivity analysis using oil price assumptions ranging from USD 50.00–65.00/bbl, with USD 65.00/bbl as our base case. This decline in global oil prices will translate into decline in ex-refinery prices ranging from PKR 9.76/ltr – PKR 28.30/ltr for HSD and PKR 9.26- PKR 27.80/ltr for MS, which in turn would drive inventory losses for OMCs in the listed space. With the base case set at USD 65.00/bbl, estimated inventory losses stand at PKR 4.76/share for PSO, PKR 3.84/share for APL, PKR 1.97/share for WAFI, and PKR 0.25/share for HASCOL.

Exhibit: Inventory Loss Sensitivity

PKR bn	Current	Case-2	Case-3	Case-4
Crude Oil (USD/bbl)	**65.00**	**60.00**	**55.00**	**50.00**
EPS (PKR) Impact				
HSD*	**-9.76**	**-15.94**	**-22.12**	**-28.30**
PSO	-2.19	-3.58	-4.97	-6.35
APL	-1.72	-2.81	-3.90	-4.99
WAFI (SHEL)	-0.67	-1.09	-1.51	-1.93
HASCOL	-0.09	-0.15	-0.21	-0.27
Petrol*	**-9.26**	**-15.44**	**-21.62**	**-27.80**
PSO	-2.57	-4.29	-6.00	-7.72
APL	-2.11	-3.52	-4.94	-6.35
WAFI (SHEL)	-1.31	-2.18	-3.05	-3.92
HASCOL	-0.15	-0.26	-0.36	-0.46
Total				
PSO	-4.76	-7.87	-10.97	-14.07
APL	-3.84	-6.34	-8.84	-11.34
WAFI (SHEL)	-1.97	-3.27	-4.56	-5.86
HASCOL	-0.25	-0.41	-0.57	-0.73

Source (s): OCAC, AHL Research, * Ex-refinery change (PKR/ltr)

Impact on E&P companies

The brent price is currency trading in the range of USD 64.00/bbl – USD 65.00/bbl. In our base case assumptions, we assumed USD 70.00/bbl in FY26. We have conducted a sensitivity on the oil price impact on earnings of E&P universe. For every USD 5.00/bbl change in oil price OGDC, PPL, POL, and MARI's earning change by PKR 4.08/share, PKR 2.70/share, PKR 7.98/share, and PKR 3.36/share, respectively.

Exhibit: Oil Price Sensitivity on E&P Universe

Oil Price	EPS	Oil Price	EPS
USD 45.00/bbl	**FY26**	**USD 55.00/bbl**	**FY26**
OGDC	31.96	OGDC	36.04
PPL	33.29	PPL	36.18
POL	92.76	POL	100.74
MARI	45.61	MARI	49.12
USD 65.00/bbl	**FY26**	**Base Case**	**FY26**
OGDC	40.12	OGDC	42.21
PPL	38.89	PPL	40.36
POL	108.72	POL	112.91
MARI	52.66	MARI	54.62
USD 75.00/bbl	**FY26**	**USD 85.00/bbl**	**FY26**
OGDC	44.19	OGDC	48.26
PPL	41.38	PPL	43.79
POL	116.69	POL	124.65
MARI	55.68	MARI	58.72

Source(s): AHL Research

Tariffs and Pakistan's listed space

Global markets trembled in the wake of President Trump's sweeping tariff announcement, sending shockwaves across continents — and Pakistan was no exception. The KSE-100 index plunged to an intraday low of 8,688 points, triggering a market halt as investor panic set in. By the close of trading, the index had shed a staggering 3,882 points, marking one of the steepest single-day declines in recent memory. The sharp escalation in tariffs is expected to deal a heavy blow to several export-oriented sectors in Pakistan, with textiles poised to bear the brunt. Given that approximately 92% of Pakistan's exports to the US are textile-based, the sector stands out as the most vulnerable to these heightened trade barriers. In contrast, sectors such as food, steel, and electronics are expected to see relatively minimal impact due to their limited export exposure to the US market.

Exhibit: Market performance since Tariff announcement

Country	USD Based Return
Hong Kong	-14.4%
London	-12.2%
Tokyo	-11.5%
USA	-11.4%
Singapore	-11.1%
USA	-10.7%
USA	-10.1%
Vietnam	-8.7%
China	-8.2%
Saudi Arabia	-7.0%
India	-5.2%
Pakistan	-2.6%

Source: Bloomberg, PSX, AHL Research

Sector-wise impact:

- **Textiles**: The most exposed companies in the listed space include FML, KTML, ILP, NML, SGF, GATM, and NCL, with US export contributions of 74.5%, 55.4%, 51.9%, 22.9%, 14.5%, 10.1%, and 8.0%, respectively. These companies are likely to face revenue headwinds as a result of reduced competitiveness in the US market.
- **Food**: Though smaller in size compared to textiles, the food sector is the second-largest export contributor to the US, with a 3% share of total US.-bound exports. Key listed players include MFFL and MFL, with respective US exposures of 14.5% and 7.5%.
- **Steel**: While the sector's overall export exposure to the USA. is relatively low at 1.1%, companies like ISL and INIL have significant US-oriented sales, contributing 61% and 51% of their revenues, respectively.
- **Cement**: This sector has minimal exposure to the US market at just 0.3%, with DGKC and POWER having US sales accounting for 16.9% and 4.2%, respectively.
- **Cable & Electrical Goods**: PAEL had recently indicated its intention to begin exporting transformers to the US market. This development is now at risk given the new tariff structure.

Exhibit: Some of the key Pakistani listed exporters to USA

	Exports as % Of Total Sales	Exports to USA as % of Export Sales
Textile		**91.9%**
FML	72.0%	74.5%
KTML	18.3%	55.4%
ILP	49.5%	51.9%
NML	13.5%	22.9%
SGF	14.4%	14.5%
GATM	9.7%	10.1%
NCL	5.6%	8.0%
Food		**3.3%**
MFFL	3.6%	14.5%
MFL	4.7%	7.5%
Steel		**1.1%**
ISL	14.7%	61.1%
INIL	11.4%	51.1%
Cement		**0.3%**
DGKC	2.7%	16.9%
POWER	1.7%	4.2%

Source: Company financials, SBP, AHL Research

ARIF HABIB LIMITED

Sectoral impact at a glance

Exhibit: Impact on sectors

USD mn	Impact		Comments
Sectors	**Direct**	**Indirect**	
E&Ps	✓		▪ Decline in international oil prices will erode earnings of the sector. ▪ Negative impact on OGDC (PKR 4.1/share), PPL (PKR 2.7/share), POL (PKR 7.9/share) and MARI (PKR 3.4/share).
OMC's	✓		▪ Decline in oil prices will result in inventory losses for OMC companies. ▪ Estimated inventory losses for companies stand at PKR 4.76/share for PSO, PKR 3.84/share for APL, PKR 1.97/share for WAFI, and PKR 0.25/share for HASCOL.
Banks		✓	▪ Risk of higher NPLs for banks with US or international exposure. ▪ Slower global growth may weaken credit quality abroad.
Textile	✓		▪ US demand slowdown amid elevated product prices may adversely impact Pakistan's textile exports, which account for 92% of the country's total exports to the US. ▪ Company-wise, export exposure to the US as a percentage of total export sales stands at 74.5% for FML, 55.4% for KTML, 51.9% for ILP, 22.9% for NML, 10.1% for GATM, and 8.0% for NCL. ▪ These companies are likely to face the most pronounced impact from a decline in US demand, especially if high prices continue to weigh on consumer spending.
Leather	✓		▪ Weak US demand due to higher product costs could reduce orders. ▪ SGF particularly exposed with over 50% exports to the USA
Pharmaceutical	✓	✓	▪ Benefit from lower international API (raw material) costs amid decline in coal prices. ▪ Likely margin expansion for local manufacturers. ▪ Negative for CPHL given company manufacturers API locally.
Food	✓		▪ Food exports to US form 3.3% of total; mostly rice. ▪ Matco Foods Ltd (7.5%) and Mitchells Fruit Farms Ltd (14.5%) most exposed to US market.

Source (s): AHL Research

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 2025 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 +15% from last closing of market price(s)
HOLD	Upside of subject security(ies) is between 0% and +15% from last closing of market price(s)
SELL	Upside of subject security(ies) is less than 0% 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 Discount 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**