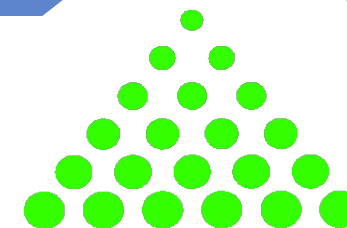


FY23 INVESTMENT STRATEGY

“Stocks to Watch During Recession”



Strategy during recession | Information Technology...

Top picks based on last recession analogy...

Since the start of this year there is a huge surge in prices of every commodity around the world which has intensified inflation control problem for each country. Where Pakistan has recorded historic high inflation ~27% in the month of September. Amid inflated prices and monetary control measures we have seen country is started falling into recession. Since we will only know what industries weathered this recession best when it's over, if we look back of 2020 recession for guidance. During that period, only few sectors in KSE100 posted positive returns. Here are the stocks that faired best in the KSE-100 in 2020.

Top stocks in the KSE-100 by highest return..

▲ Information Technology / Telecommunication

Information technology was the most represented industry, with three companies from this sector generating double-digit returns. Since these companies remain beneficial in getting dollar at the time of lock down, which was reflected their respective 2021's financials. Furthermore increase in PKR dollar parity. the exchange gains leveraged net margins.

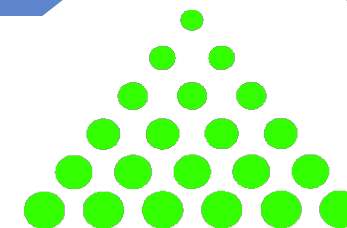
During recession these four buoyed SYS, AVN, OCTOPUS and NETSOL..

IT companies mostly trade at higher PE ratio based on their nature of business, since pandemic, IT sector embark in a very exciting transformational journey. Which reflected in 2021 earnings. Furthermore, tax holiday to this sector has also enabled them to mark the growth legacy.

▲ Now we are again seeing SYS reporting increase in net earnings during CY22. To remind you, SYS released its 3Q earnings and quarterly revenues sitting at an all-time high of PKR 6bn – depicting an increase of 92% compared to the same time last year. Yearly revenues are also up 81% YoY at PKR 14bn. Net income grew to PKR 4.7bn while basic EPS rose to PKR 17.3 – a 107% increase compared to last year. Company has ample cash to invest in new amalgamations. This is continuation of their story since CY20-21.

▲ As of September 30,2022 AVN generated order worth \$71mn (highest in their history as per their analyst brief) which will be recognised in later quarters as per prescribed IFRS-15 principle. During the current year, AVN generated orders of \$71mn beyond the target of \$50mn. The core business is expected to organically grow by 10-15% on a YoY basis and at a 4-year CAGR of 16% till 2025.

▲ NETSOL being a software producing entity directed towards leasing and financing recorded PKR 1.7 bn revenue with 37%yoy improvement. NETSOL recorded PKR 281mn license revenue due to the implementation of NFS Ascent™ at two different customer sites in Taiwan and South Africa. Subscription and support revenue also increased from PKR 559 mn to PKR 712 mn during the current quarter. While Company posted net EBITDA profit of PKR 3.76 per diluted share compared to PKR 3.39 per share in the corresponding period. The company is also into AWS implementation.



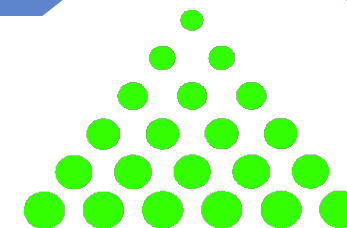
Strategy during recession | Digital sales, cyber security

Top picks based on recent growth analogy...

- ▲ The AVN's flagship, Octopus Digital (OCTOPUS), posted a 43% YoY growth in earnings during 9MCY22. OCTOPUS is projected to post a revenue of \$9.5 mn for the next year. Whereas, net profit for the next year is projected at \$3.7 mn. OCTOPUS is expected to post revenue in excess of \$37 mn by the year 2027. The company's collaboration with Zamil O&M Company (ZOMCO), a provider of operations and maintenance services in Saudi Arabia, represents its biggest success. Octopus will officially starts its operations from coming month i.e. January which is expected to accelerate company's net earnings in double digit growth, as per recent analyst brief.
- ▲ Hum Network Ltd (HUMNL) reported its 1QFY23 EPS of PKR 0.32/sh against EPS of PKR 0.27/sh same period last year. The reported revenue has increased by 9.4% in Y/Y basis comparison. HUMNL ranks 3rd in TRP rating with 13% market share after Geo entertainment and ARY digital. The revenue stream contributed from multiple sources where approximately ~76% revenue earned through advertisement income and ~ 19% from subscription income. Moreover, HUMNL has focused its digital sales where the 4 quarters digital sales CAGR has been estimated at 53%.
- ▲ In 1QFY23 TELE reported its consolidated PAT of PKR 88mn (EPS PKR 0.26) Vs a loss of PKR 98mn (EPS PKR 0.31), the company's subsidiary Supernet (accounts to 16%) of total revenue is listed on the GEM board. SUPERNET being a cybersecurity and IT related services and product provider is awarded long term contract for IT & telecom equipment amounting to PKR 400mn from its major customers, under partnership with AvaraTechnologies. Having Multi Year, multi billion rupees of subscription program and To leverage this opportunity Supernet is marketing similar solution in Pakistan, Middle East and Central Asia. Supernet and its subsidiary Supersecure won a major deal in implementation of new Cyber security initiatives for Security Orchestration, Automation & response (SOAR) implementation in Pakistan for a major Telco, Banking and Finance sector.

Symbol	Name	P/E (x)	Price to BV (%)	ROE (%)	ROA (%)
OCTOPUS	Octopus Digital Limited	18.0	7%	6%	6%
AVN	Avanceon Ltd. Consolidated	15.6	3%	12%	19%
HUMNL	Hum Network Ltd.	5.2	1%	20%	27%
NETSOL	Netsol Technology Ltd.	10.4	1%	9%	12%
SYS	Systems Ltd.	20.2	11%	22%	31%
TELE	Telecard Ltd. Consolidated	7.2	1%	63%	10%

Source, Company's financials, Scs Research



Strategy during recession | Food sector stories.....

Top picks based on consumption patterns...

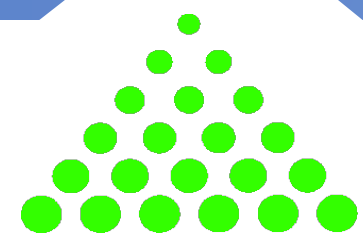
Consumer Staples

Consumer staples tend to do well during recessions. When the economy hits rock bottom and people find themselves out of work, they still need to eat, wash, brush their teeth, and so on.

- Food products sector has relatively low to medium financial risk. Majority of sales are executed against cash payments. Trade debts of the sector are generally low. Short term product lifecycle and cash sales leads to lower inclination towards short term borrowings.
- Favourable demographic and consumer dynamics are expected to support the food products' demand. However, the sector is expected to face challenges due to increasing inflation.
- Average gross margins of the Industry hover in the range from ~16-18%. GP Margins are highly dependent on the raw material costs (~85% of the total costs), which majorly includes grains and commodities. Delay in LC opening will have an impact on their respective margins. However, we see this is being factored into their share prices in recent months.

Company	Share Price (PKR)	Market Cap (PKR bn)	EPS	PE Ratio	ROCE	ROE	D/Y	3 Years Growth (%)			
								Interest Coverage Ratio	Operating Profit Margins	Sales	Net Profit
PREMA	19.25	4.20	4.33	4.4	32%	25%	0%	9%	21%	35%	100%
MUREB	345.73	9.56	46.78	7.4	14%	11%	8%	113%	12%	17%	15%
TOMCL	22.84	3.08	3.05	7.5	7%	13%	0%	6%	5%	17%	24%
RMPL	9,300.0	85.89	680.0	13.7	54%	39%	6%	195%	21%	13%	10%
NATF	116.0	27.04	8.43	13.8	34%	30%	3%	15%	9%	17%	23%
NESTLE	5,700.0	258.49	280.0	20.4	97%	236%	5%	11%	16%	4%	9%
FCEPL	70.09	53.73	3.02	23.2	23%	17%	0%	4%	6%	17%	-100%

Source: Company's Financial, ScsResearch



Strategy related to battered pharma sector

Top watch once LC opening matter resumes...

Health Care

The healthcare is a sector generally renowned for faring better during downturns. The reasoning behind this is clear: *you need healthcare to live*, and therefore are much less likely to skimp on it even when your income declines. The technical term for this is **price inelasticity**.

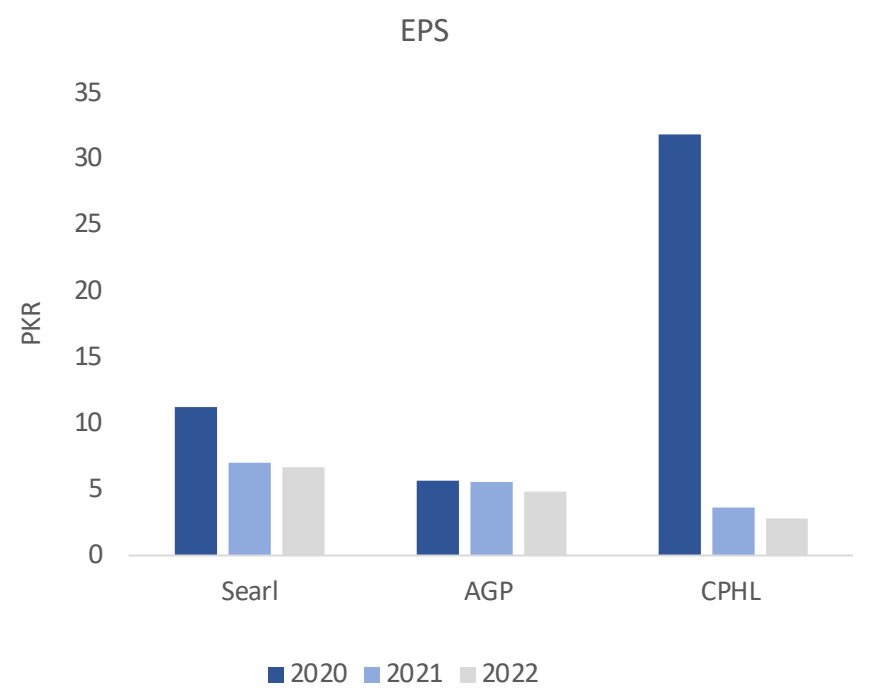
During recession these three buoyed SEARL, AGP and CPHL by rising demand...

But not all healthcare companies are created equal, and recessions are likely to hurt those companies with more debt and less cash flow. As the pharmaceutical industry is dampened by high reliance of imported active pharmaceutical ingredients (APIs), the high volatility in exchange rates negatively impacted profit margin of company in addition to the factors such as high inflation, increased policy rates and energy costs as entailed above. Introduction of super tax levy of 10% on Pharmaceutical Sector and sales tax on raw materials import (through a change in industry's status from Exempt to 17%).

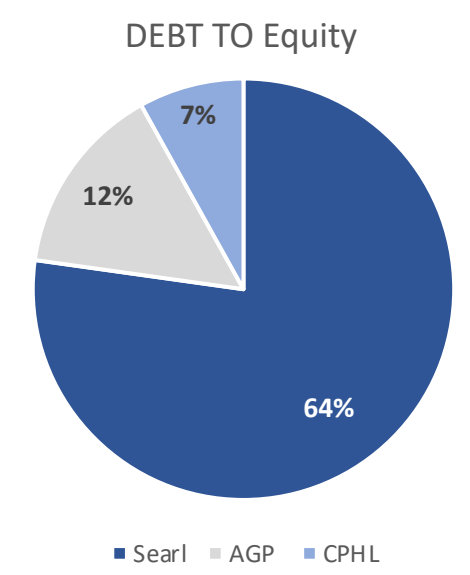
Despite these challenges, the pharmaceutical and healthcare industry in Pakistan continues to grow. The country's large population and growing middle class provide a huge potential market for companies operating in the sector.

The industry grew by 15% in last year (as per IMS) and is estimated to be around \$3.2 bn (PKR 656 bn). The vast majority of this market is dominated by local companies, which account for approximately 69% of the total market share.

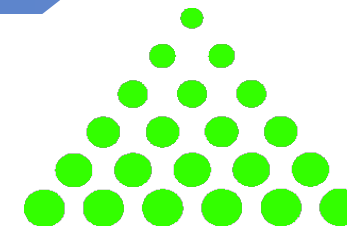
- ▲ SEARL maintain its position as a leading player in the pharmaceutical sector by its specialty generic branded portfolios and targeting differentiated products, especially in the segments of Cardiovascular, Cold & Cough, Diabetes, Infant formula, Probiotics and Antibiotics. These initiatives will help SEARL maintain its position in the pharmaceutical sector.
- ▲ AGP owns a diverse portfolio of pharmaceutical brands and nutraceutical products which include Rigix , Osnate and Ceclor. Last year, AGP through its subsidiary OBS AGP (Private) Limited (OBS AGP), acquired 22 pharmaceutical brands from Sandoz AG, including Azomax, Zatofen and Ternelin amongst its top brands.
- ▲ CPHL deals in 9 primary APIs, including Paracetamol, Ciprofloxacin, Cefixime (Cephalosporin), and Amoxicillin (Penicillin). The company is relatively new and caters to major pharma companies API needs. We witnessed increase in post IPO sales.



Source, company's financials, Scs Research



Source, company's financials, Scs Research



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- The time duration is the financial reporting period of Subject Company.

Valuation method

Following research techniques adopted to calculate target price/recommendation

Price to earnings & Price to Book, Price to Cash, EV-EBITDA multiple

Discounted Cash flows or Dividend Discount Model or Enterprise Value