

# Pakistan Equity Strategy Report: Geopolitical Risks

## Creating Long-Term Opportunities

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### Global Market Impact: Energy Shock and Asset Class Reaction:

The recent U.S.-Israeli strikes on Iran have unsettled global financial markets, triggering notable equity corrections, particularly in energy import-dependent economies. LNG and crude oil prices rallied sharply following Iran's temporary closure of the Strait of Hormuz, highlighting structural vulnerabilities in global energy supply chains.

At the same time, the rise in U.S. Treasury yields despite equity market weakness reflects the limited effectiveness of traditional diversification strategies during supply-driven geopolitical shocks. Interestingly, gold prices declined despite rising geopolitical tensions, suggesting a shift toward U.S. dollar liquidity. Profit-taking in gold also appears linked to investors covering margin calls on leveraged equity positions.

### Inflation and Monetary Policy Outlook:

The conflict presents near-term inflation risks mainly through disruptions in energy logistics, which could last several weeks. Even if the Strait of Hormuz reopens, supply chain normalization could take one to two months.

Persistent geopolitical fragmentation may also contribute to structurally sticky inflation, potentially delaying a return to a low-interest rate environment. The Federal Reserve's decision to maintain policy rates reflects caution as inflation remains above its 2% target, while rising energy prices present additional upside risks.

### Market Outlook: Diplomatic Progress Key for Sustainable Recovery:

From a strategy standpoint, sustained positive momentum in global equities may remain limited until a clear diplomatic breakthrough between the U.S. and Iran emerges. While recent ceasefire discussions may provide temporary sentiment relief, a durable recovery would likely require a formal agreement supported by credible enforcement mechanisms.

Mixed signals on negotiations continue to justify cautious investor positioning despite short-term relief rallies.

### Capital Flows Outlook: Emerging Markets Facing Pressure:

Given the current global environment, capital flows are likely to favor markets offering relatively higher interest rates, particularly the United States, as the global monetary cycle shifts toward a cautious or tightening bias.

This trend increases the risk of portfolio outflows from frontier and emerging markets including Pakistan. Recent T-Bill and PIB auction results already suggest some foreign outflows, highlighting the sensitivity of foreign investment to global liquidity conditions and interest rate differentials.

### Pakistan Strategy View: KSE-100 Historical Resilience:

From a domestic perspective, the KSE-100 Index has historically shown sharp short-term reactions to geopolitical events in line with global market sentiment, followed by strong recoveries once uncertainty subsides.

Key historical examples include:

- Afghanistan War (2001)
- Russia-Ukraine conflict (2022)
- India-Pakistan tensions (2025)

In each case, initial market declines were followed by meaningful recoveries, demonstrating the market’s ability to absorb external shocks and restore investor confidence as risk premiums normalize.

**Investment Strategy: Volatility as an Opportunity:**

Near-term volatility is likely to persist until geopolitical clarity improves. However, historically such periods have created attractive entry opportunities for medium- to long-term investors.

Periods of uncertainty typically improve valuation attractiveness and dividend yields. Investors following a disciplined and fundamentals-based approach may benefit from temporary market dislocations.

**Preferred Investment Approach:**

We recommend focusing on:

- Companies with defensive earnings
- Strong cash flow visibility
- Stable dividend profiles
- Fundamentally strong balance sheets

Such stocks can provide both dividend income stability and long-term capital appreciation potential during uncertain market conditions.

**KSE-100 Technical Analysis:**

The KSE-100 Index continues to respect its weekly demand zone between 148,000 and 151,000, reinforcing this area as a strong structural support. The rebound from ~149,000 toward 157,000 confirms the presence of institutional buying



interest and validates the zone as an accumulation range. Despite the prevailing short- to medium-term downtrend, this upward reaction suggests a potential shift into a consolidation phase rather than continued selling. If the index sustains above 151,000 on pullbacks, the bullish corrective structure remains intact with chances of further upside. However, a breakdown below 148,000 would invalidate the support zone and likely resume the broader bearish trend.

### Recommended Stocks

Sector	Symbol	Close	DY (TTM)	Support 1st	Support 2nd
AUTOMOBILE ASSEMBLER	ATLH	1477.88	5.94	1400	1220
AUTOMOBILE ASSEMBLER	GAL	353.93	1.82	350	305
AUTOMOBILE ASSEMBLER	INDU	1796.94	9.83	1715	1590
AUTOMOBILE ASSEMBLER	SAZEW	1756.74	3.64	1761	1680
CEMENT	BWCL	440.53	5.34	425	395
CEMENT	DGKC	164.62	0.87	165	138
CEMENT	FCCL	38.18	2.23	35.62	32.85
CEMENT	LUCK	365.22	0.82	316	290
CEMENT	MLCF	81.57	-	72.15	62.35
CHEMICAL	GCIL	26.89	-	23.15	20.84
CHEMICAL	LOTCHEM	23.01	17.14	22.07	20.28
COMMERCIAL BANKS	BAFL	108.47	9.63	105.18	97.00
COMMERCIAL BANKS	FABL	84.89	7.01	80.41	76.13
COMMERCIAL BANKS	HBL	258.36	6.18	250	235
COMMERCIAL BANKS	MEBL	437.17	6.3	422	402
COMMERCIAL BANKS	NBP	178.36	14.45	165	155
COMMERCIAL BANKS	UBL	369.54	8.24	352	330
FERTILIZER	EFERT	202.69	6.63	195	185
FERTILIZER	FFC	502.25	6.26	480	462
FOOD & PERSONAL CARE	BBFL	36.22	-	30	28
FOOD & PERSONAL CARE	FFL	14.88	-	13.30	12.01
FOOD & PERSONAL CARE	NATF	345.41	7.07	326	300
OIL & GAS EXPLORATION	OGDC	276.5	4.09	255	235
OIL & GAS EXPLORATION	MARI	642.14	4.19	605	550
OIL & GAS EXPLORATION	POL	640.13	12.74	615	600
OIL & GAS EXPLORATION	PPL	214.76	3.18	207	193
OIL & GAS MARKETING	APL	529.94	6.05	498	467
OIL & GAS MARKETING	PSO	363.85	2.11	330	305
PHARMACEUTICALS	AGP	193.31	3	172	160
PHARMACEUTICALS	GLAXO	324.88	3.36	302	280
PHARMACEUTICALS	HALEON	724.77	3.6	670	602
PHARMACEUTICALS	HINOON	903.98	3.39	765	700
POWER GENERATION	HUBC	197.75	9.03	187	170
POWER GENERATION	NCPL	60.04	3.97	56	50
POWER GENERATION	NPL	66.12	3	60	51
REFINERY	ATRL	808.45	1.1	750	700
REFINERY	CENERGY	6.99	-	6.50	6.10
LEATHER & TANNERIES	SGF	89.97	1.71	83.75	75.25
TRANSPORT	PIBTL	15.45	-	14.66	13.71

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<b>TP</b>	Target Price	<b>CAGR</b>	Compound Annual Growth Rate	<b>FCF</b>	Free Cash Flows
<b>FCFE</b>	Free Cash Flows to Equity	<b>FCFF</b>	Free Cash Flows to Firm	<b>DCF</b>	Discounted Cash Flows
<b>PE</b>	Price to Earnings Ratio	<b>PB</b>	Price to Book Ratio	<b>BVPS</b>	Book Value Per Share
<b>EPS</b>	Earnings Per Share	<b>DPS</b>	Dividend Per Share	<b>ROE</b>	Return of Equity
<b>ROA</b>	Return on Assets	<b>SOTP</b>	Sum of the Parts	<b>LDCP</b>	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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