

PAKISTAN



| Sector of Large Scale Manufacturing | Weight | Dec-21 | 1HFY22 |
|--------------------------------------|--------|-------------|-------------|
| Textile | 18.2% | -0.9% | 2.8% |
| Food | 10.7% | 3.3% | 1.3% |
| Coke & Petroleum Products | 6.7% | -21.6% | 0.7% |
| Chemicals | 6.5% | 4.8% | 2.6% |
| Wearing Apparel | 6.1% | 17.3% | 20.5% |
| Pharmaceuticals | 5.2% | -13.6% | -4.9% |
| Non Metallic Mineral Products | 5.0% | 6.0% | 1.8% |
| Fertilizers | 3.9% | 6.3% | -3.8% |
| Beverages | 3.8% | -0.3% | 4.3% |
| Iron & Steel Products | 3.4% | 13.4% | 18.4% |
| Automobiles | 3.1% | 83.1% | 69.4% |
| Chemicals Products | 2.5% | 2.5% | 14.1% |
| Tobacco | 2.1% | 50.8% | 50.8% |
| Electronics | 2.0% | 56.1% | -1.3% |
| Paper & Board | 1.6% | 7.7% | 8.3% |
| Leather Products | 1.2% | 5.4% | 6.8% |
| Other Transport Equipment | 0.7% | -9.1% | -4.0% |
| Furniture | 0.5% | 181.3% | 594.1% |
| Fabricated Metal | 0.4% | -6.1% | -4.3% |
| Machinery and Equipment | 0.4% | 16.4% | 15.3% |
| Other Manufacturing (Footfall) | 0.3% | 31.1% | 19.1% |
| Rubber Products | 0.3% | -5.8% | -28.3% |
| Wood Products | 0.2% | 478.4% | 292.4% |
| Computer, electronics & optical prod | 0.0% | 24.1% | -3.3% |
| | | 6.4% | 7.4% |

Source: PBS, Foundation Research, Feb 2022

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Large Scale Manufacturing Growth remains robust

LSM grows by 6.4% YoY in Dec'21

LSM witnessed growth of 6.4% YoY (up 10.5% MoM) during Dec'21 amid robust economic activity given buoyant domestic demand. Thus, 1HFY22 growth was recorded at 7.4% YoY. During Dec'21, MOI/BOS index grew by 9.3/7.9% YoY while OCAC index fell by 21.6% YoY. Sectors which continued to power ahead YoY were Food (↑3.3%), Chemicals (↑4.8%), Wearing Apparel (↑17.3%), Non Metallic Minerals (↑6.0%), Fertilizers (↑6.3%), Iron & Steel (↑13.4%), Autos (↑83.1%), Chemical Products (↑2.5%), Tobacco (↑50.8%), and Electronics (↑56.1%). Whereas YoY decline was observed in Textile (↓0.9%), Coke & Petroleum Products (↓21.6%), Pharmaceuticals (↓13.6%) and Beverages (↓0.3%).

Automobiles and Wearing Apparel showed growth

Autos registered growth of 83.1% YoY in Dec'21 on the back of 17.0/87.0/8.3/86.7/34.8% YoY growth in Tractors/Trucks/Buses/Jeeps and Cars/LCV. Whereas, Motorcycles dragged by 9.5% YoY. Going forward, the sector is expected to outperform given (1) increasing demand amid economic growth outlook and (2) curbing CBU imports despite price hikes amid Rs-US\$ depreciation.

Wearing Apparel witnessed growth of 17.3% YoY in Dec'21 given strong demand for Pakistani products globally. Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani garments amid currency depreciation.

Food, Iron/Steel, Non Metallic Minerals and Chemicals also increased

Iron and Steel grew by 13.4% YoY in Dec'21 given that billets/ingots inclined by 27.3% YoY and HRC/CRC were up by 5.4% YoY. NMM rose by 6.0% YoY in Dec'21 due to 149.8% YoY increase in glass plates and sheets despite cement production declining by 1.1% YoY. Chemicals witnessed an increase of 4.8% YoY due to 0.9/64.6/55.3/44.9% YoY incline in paints & varnishes (s)/hydrochloric acid/sulphuric acid/chlorine amid decline of 8.6% in paints & varnishes (l).

Food inclined by 3.3% YoY in Dec'21 due to 5.5/8.4/0.9/25.4% YoY increase in vegetable ghee/cooking oil/wheat and grain milling/starch & its products. Whereas Beverages fell by 0.3% YoY in Dec'21 as soft drinks declined by 15.4% YoY.

Textile, Petroleum and Pharma declined

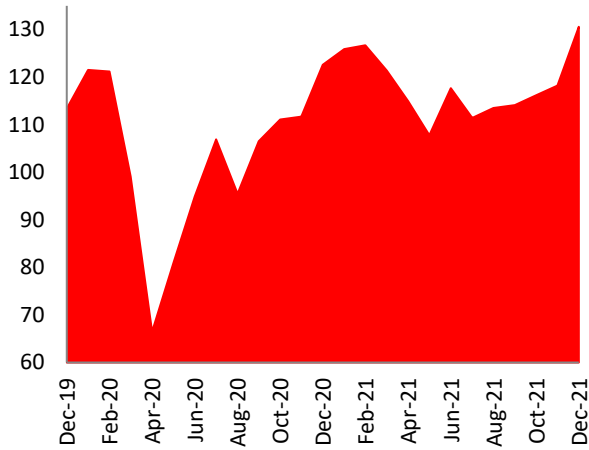
Textile sector registered decline of 0.9% YoY. Looking ahead, we are optimistic as export markets are projected to continue growing along with strong demand for Pakistani textiles amid currency depreciation.

Coke and Petroleum decreased by 21.6% YoY as MS/HSD/furnace oil were down by 30.9/26.7/34.9% YoY given lower run rate of refineries. Pharmaceuticals declined by 13.6% YoY given that tablets/capsules/injections/ointments declined by 33.2/43.4/39.0/5.2% YoY. Whereas syrups /tincture increased by 27.9/166.7% YoY.

Outlook

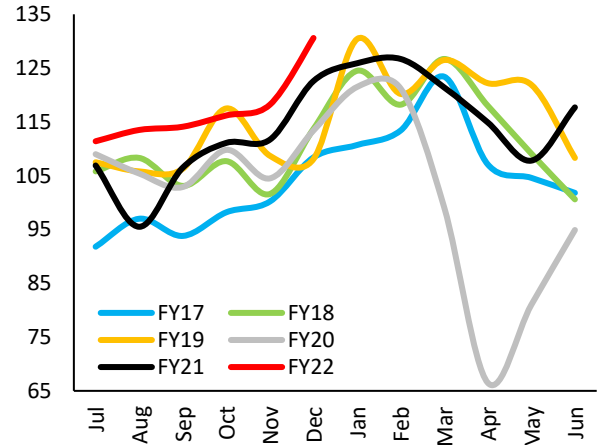
We expect LSM would post strong growth in FY22 on the back of (1) persisting economic growth given robust domestic demand, (2) incentives to construction sector and (3) greater reliance on domestic products given high Rs-US\$ depreciation despite global supply chain snarls causing higher inflation and prolongation of high int'l oil/commodity prices.

Fig 01: Monthly LSM index surges to new highs



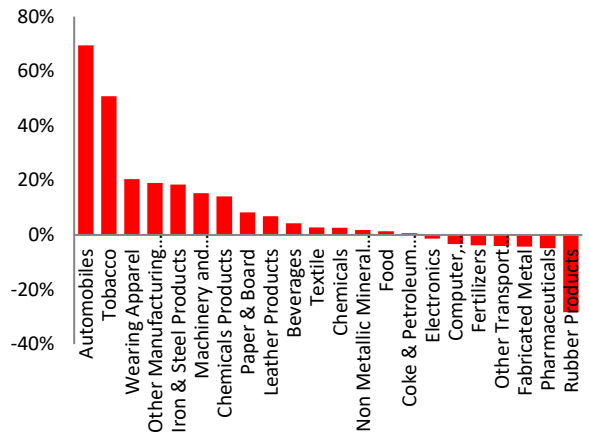
Source: PBS, Foundation Research, Feb 2022

Fig 02: LSM index shows marked seasonality...



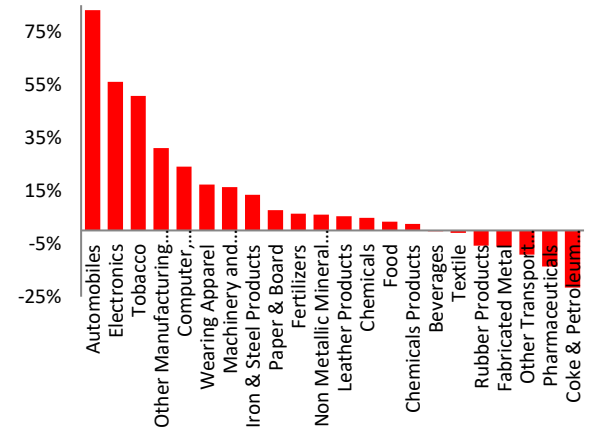
Source: PBS, Foundation Research, Feb 2022

Fig 03: Growth rate of various sectors during 1HFY22



Source: PBS, Foundation Research, Feb 2022

Fig 04: Growth rate of various sectors during Dec'21



Source: PBS, Foundation Research, Feb 2022

Abbreviations

| | |
|-------|----------------------------------|
| OCAC | Oil companies advisory committee |
| MOI | Ministry of Industries |
| BOS | Bureaus of statistics |
| FBT | Food Beverages and Tobacco |
| NMM | Non Metallic Mineral Products |
| MoM | Month on Month |
| YoY | Year on Year |
| MS | Motor Spirit |
| HSD | High Speed Diesel |
| FO | Furnace Oil |
| FY | Fiscal year |
| PCs | Passenger Cars |
| LCVs | Light Commercial Vehicle |
| RLNG | Re-Liquefied Natural Gas |
| LNG | Liquefied Natural Gas |
| Gov't | Government |

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Recommendations definitions

| | |
|-----------------------------------|---------------|
| If | |
| Expected return >+10% | Outperform. |
| Expected return from -10% to +10% | Neutral. |
| Expected return <-10% | Underperform. |