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PAKISTAN
STRATEGY

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MARKET
VISTA

Mar’19: Dull spell continues at the bourse

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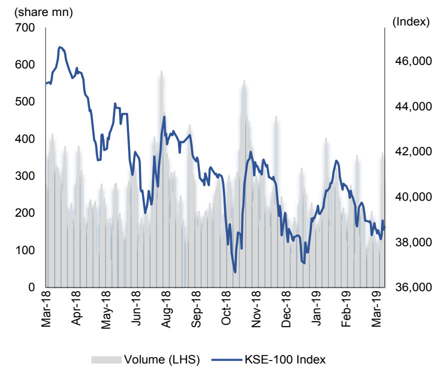
- **KSE-100 Index’s performance remained muted during Mar’19, closing at 38,649.34pts (down 1.04%MoM) with average volumes clocking in at 158.9mn, lowest since Jan’16. Investors remained on the sidelines weighing negative FATF related news flows over potential certainty over an IMF financing deal.**
- **In another development, Monetary Policy Committee (MPC) raised policy rate by 50bps to 10.75% (DR: 11.25%) citing, i) inflationary pressure to continue (Mar’19E CPI at 9.01%, real interest rate would have stood at 1.1% had MPC maintained status quo - a level similar to Dec’17), ii) fiscal deficit remains elevated, and iii) current account deficit, despite recording improvement, still stands beyond authorities’ comfortable limit.**
- **We expect market participation to remain dull with investors preferring to remain on the sidelines as the Government moves ahead with reforms. To highlight, avg. volumes since the new gov’t came into the power stands at 164.8mn (Aug’18-Feb’19) vs. 216.0mn (Jun’13-Dec’13) in the early tenure of the PML-N gov’t.**
- **We have preference for macro-hedged sectors encompassing banks, E&Ps, selected Power and Textiles as opposed to dividend yield plays. Our top picks include, BAHL, MEBL, OGDC, HUBC and NML.**

Mar’19 – muted performance at the bourse: Defying the historical trend (where we used to witness heightened activity in Mar with the result season behind), KSE-100 Index’s performance remained muted in Mar’19, closing at 38,649.34pts (down 1.04%MoM). This month also recorded the lowest daily volume in ~10 months (Volumes shrunk to as low as 94.8mn in a single day) with average volumes clocking in at 158.9mn, lowest since Jan’16. Investors remained on the sidelines weighing negative FATF related news flows over potential certainty of an IMF financing deal. To highlight, on avg. market has performed –ve 1.3/+2.7/2.9% in the 1M/2M/3M post-IMF facility. Foreigners turned net sellers, after being net buyers in the previous 2M, with an outflow of US$17.8mn in Mar’19 followed by mutual funds disposing US$10.7mn worth of equities. The selling by mutual funds in equites is widely expected given attractive returns on money market instruments. However, the selling was absorbed by Brokers (US$10.3mn), Insurance (US$9.3mn), and Banks (US$7.0mn).

MPC hiked policy rate by 50bps: In another development, Monetary Policy Committee (MPC) raised policy rate by 50bps to 10.75% (DR: 11.25%) citing, i) continuing inflationary pressure (Mar’19E CPI at 9.01%, real interest rate would have stood at 1.1% had MPC held the policy rate - a level similar to Dec’17) , ii) elevated fiscal deficit, and iii) current account deficit, despite recording improvement, still standing beyond authorities’ comfortable limit. We continue to maintain our policy/discount rate forecast at 11.5/12.0% for CY19. We expect inflationary pressures to escalate driven not only from demand-side (Ramadan effect) but also due to fiscal adjustments (electricity/gas rate hikes, indirect taxation to plug revenue deficits etc) agreed upon by the authorities with the IMF. Additionally, Government has agreed upon establishing an independent committee to determine PkR/US$ parity based on updated REER methodology where any excessive currency depreciation could bring upon further inflationary pressure.

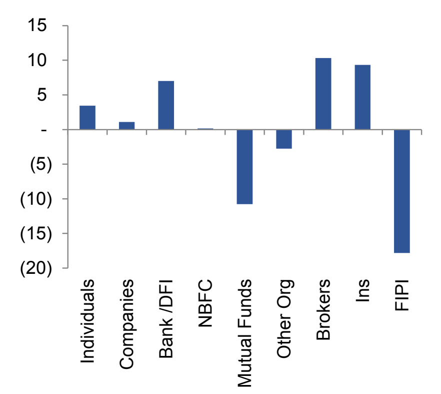
Outlook: We expect market participation to remain dull with investors preferring to remain on the sidelines as the Government moves ahead with reforms. To highlight, avg. volume since the new gov’t came into the power stand at 164.8mn (Aug’18-Feb’19) vs. 216.0mn (Jun’13-Dec’13) in the early tenure of the PML-N gov’t. Given the negative impact of reforms in the immediate run, the same could reflect on market performance. Hence, any weakness should be taken as an opportunity to accumulate. We have preference for macro-hedged sectors encompassing Banks, E&Ps, selected Power and Textiles as opposed to dividend yield plays. To highlight, ability of dividend yielding stocks to withstand the bearish spell (Avg. beta of 0.74x, CY17-19TD) has failed to invigorate investor interest in the recent times given inadequate yields to compensate for the risk premiums (Read our daily: Yields will not be the 'knight in shining armor'). Our top picks include, BAHL, MEBL, OGDC, HUBC and NML.

KSE-100 Index Performance



Source: PSX & AKD Research

FIPI vs. LIPI (US$ mn)



Source: NCCPL & AKD Research

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Buy	**> 19% expected total return (Rf: 13% + Rp: 6%)**
Neutral	**> 13% to < 19% expected total return**
Sell	**< 13% expected total return (Rf: 13%)**

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Buy	**> 20% upside potential**
Accumulate	**> 5% to < 20% upside potential**
Neutral	**< 5% to > -5% potential**
Reduce	**< -5% to > -20% downside potential**
Sell	**< -20% downside potential**
Not Rated	**No investment opinion or recommendation**

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