



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Market: July's Bumpy Ride to Election'18

Rejoicing over smooth general elections (held on Jul 25'18) and perceived improvements in the macro environment (i.e. financial assistance from China & Saudi Arabia and consequent PKR appreciation), the market pared back 801pts over the previous month, closing at 42,712.43pts. The ride, however, was not smooth as participants factored in political upheavals including court's decision against former PM Nawaz Sharif and his subsequent imprisonment earlier during the month with the index once again hovering close to 39k levels before rebounding to over 43.5k, a level last seen in Jun'18. Market activity witnessed substantial improvement particularly towards the end of the month on emerging clarity following General Elections 2018, with avg. volumes for KSE-100 index clocking in at 185.53mn shares (up 34%MoM). Amongst mainboards, cements (+6.7%MoM) and banks (+4.7%MoM) were major outperformers, while laggards include Automobiles & Parts (-5.8%MoM), Oil and Gas (-1.4%MoM), and Textiles (-0.1%MoM). Looking ahead, smooth transition of power including the formation of the cabinet, key appointments (ala Chief Ministers et al) will strengthen sentiments, potentially translating into a brief rally, tempered by a precarious external account position.

KSE100 - Index

Current 42,712.43
Previous 43,556.63
Chg. -1.94%

Mkt Cap. (PkrBn/US\$bn)

Current 8,750 / 70.46
Previous 8,861 / 71.35
Chg. -1.25%

Daily Turnover (mn)

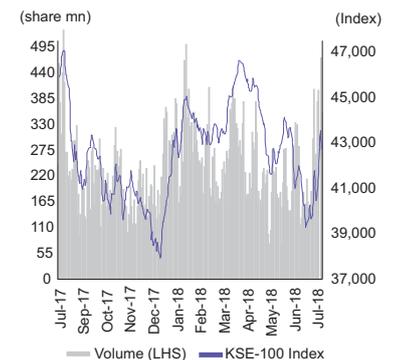
Current 274.54
Previous 377.93
Chg. -27.4%

Value Traded (Pkrmn/US\$m)

Current 13,664 / 110.04
Previous 14,993 / 120.73
Chg. -8.9%

News and Views

- FBR plans to probe into the money trails of 500 high net-worth Pakistani individuals and companies having properties in the UK from Aug 1 to discover their 'probable' tax evasion after the expiry of amnesty schemes.
- The caretaker government has kept the prices of petroleum products unchanged and passed on the responsibility of monthly price revision to the future elected government. To adjust for rising prices in intl. market, FBR has decreased sales tax on Motor Spirit from 17% to 9.5% from Aug 1.
- To deal with a likely urea shortage of about 0.5-0.6 mn tons, the government is mulling a mix of local and sourced gas to restore one mn ton of idle manufacturing capacity, instead of opting for costly imports by providing Rs950/bag subsidy on supply of natural gas, which is much less to the subsidy amount of Pkr1,100 involved on importing urea, as per proposal.
- Pak Suzuki Motor Company Ltd (PSMCL) made the fourth increase in car prices – between Pkr20,000 to Pkr40,000 – for various models, effective from Aug 1.



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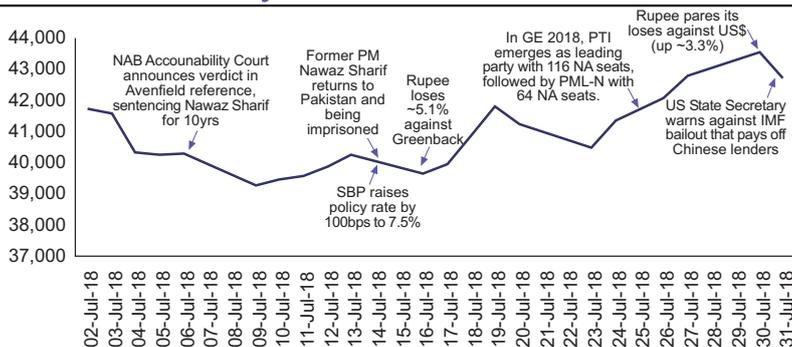
Sector Performance: Sector wise movement was broadly dictated by macro shifts of 1) 100bps rate hike to 7.5% and 2) PKR devaluation of 5.1% mid-month before gaining 3.3% later on. In this purview, Software and Computer Services jumped 9.0%MoM. Banking scrips also gained momentum where the sector returned 4.7%MoM. However, depreciating PKR benefitted Cement sector (lower cost of inputs) where avg. ex-factory prices also rose to the tune of PKR15/bag. Along with this, ban on sales of cars to non-filers dampened Automobile & Parts' performance during the month (down 5.8%), while Oil & Gas slid 1.4%MoM despite ~flat intl. oil prices.

July'18: Sector Performance

| | |
|--------------------------|--------|
| Cements | 6.67% |
| Commercial Banks | 4.73% |
| Chemicals | 4.01% |
| Pharma and Bio Tech | 1.33% |
| Personal Goods (Textile) | -0.12% |
| Electricity | -0.84% |
| Oil and Gas | -1.43% |
| Automobile and Parts | -5.79% |

Source: PSX & AKD Research

KSE100 - Index : July'18 Timeline



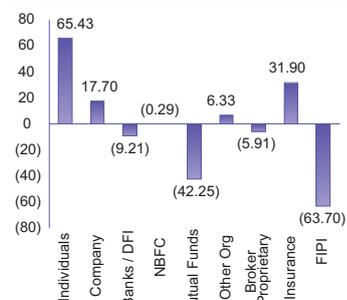
Source: PSX & AKD Research



Volumes spike as confidence rises: Court's decision in Avenfield reference case and smooth elections with expectations of swift transfer of power cleared political uncertainties, subsequently resulting in increased investor participation with volumes moving up by 15.2%MoM. Foreigners remained net sellers with outflows of US\$63.7mn, with concentration in Banks (US\$31.1mn) and Oil & Gas Exploration (US\$22.0mn) while bagging fertilizer scrips worth US\$8.2mn. On the local side, individuals and Insurance combined amassed net equities worth US\$97.3mn.

Investment perspective: Moving past the electoral process, smooth transition of power including the formation of the cabinet, key appointments (i.e. Chief Ministers of all the four provinces) will further strengthen sentiment, potentially translating into a brief rally. Further down the line, policy initiatives adopted by the new formed gov't particularly economic policy framework should broadly set the tone of the market. Sector-wise, we are bullish on Banks, Oil, Textiles and Steel, while our top picks include MCB, LUCK, OGDC, PSO, NML and ASTL .

July'18: FIPI vs LIPI



Source: NCCPL & AKD Research

Country Valuations (2018)

| | EPS Growth | PE(x) | DY |
|-------------|------------|-------|------|
| Pakistan | 16.65% | 7.58 | 6.65 |
| Malaysia | 12.12% | 13.70 | 3.39 |
| China | 13.63% | 10.10 | 2.99 |
| Indonesia | 9.90% | 14.24 | 2.58 |
| Philippines | 7.37% | 15.76 | 1.80 |
| India | 19.60% | 16.52 | 1.66 |
| Vitenam | 12.33% | 15.76 | 1.60 |

Source: Bloomberg



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| | |
|------------|------------------------------------|
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| Accumulate | > 5% to < 20% upside potential |
| Neutral | ≤ 5% to ≥ -5% potential |
| Reduce | < -5% to > -20% downside potential |
| Sell | ≤ -20% downside potential |



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