AKD Daily

Tuesday, Dec 20, 2016

Today's Daily

Pak-Economy: external account slippages gaining prominence

Balance of payment metrics in Nov'16 have remained unimpressive. While exports for the month marked slight recovery with 6.2% sequential rise, they remain flat on YoY basis which coupled with 6.0%MoM/10.8%YoY rise in imports has pushed the trade deficit 10.5%MoM/14.3%YoY higher. While remittances improved 3.3%YoY for the month to US$1.61bn, dip in flows from GCC region at 0.8%YoY still remains a concern. Foreign investment inflows netted at US$87.2mn in Nov'16, down 41%YoY, where FDI stood at US$143.7mn (down 37%YoY) as inflows from China have been slow this fiscal year (China's share in 5MFY17 down to 34% from 45% in comparative period last year). Going forward, BoP trends are expected to worsen; with low room for fast paced recovery in exports we see FY17F trade deficit expanding by 14%YoY which coupled with flattish remittance flows should keep CAD deficit at 1.7% of GDP for FY17

KSE100 - Index	
Current	46,938.59
Previous	46,584.53
Chg.	0.76%

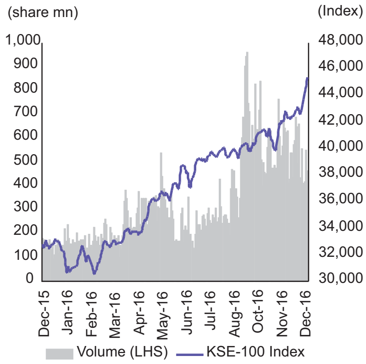
Mkt Cap. (PkRbn/US$bn)	
Current	9,381 / 89.68
Previous	9,333 / 89.22
Chg.	0.52%

Daily Turnover (mn)	
Current	344.15
Previous	346.07
Chg.	-0.6%

Value Traded (PkRmn/US$mn)	
Current	19,408 / 185.54
Previous	19,494 / 186.37
Chg.	-0.4%

News and Views

- PM Nawaz Sharif brought five key regulators/regulatory bodies under the administrative control of relevant divisions/ministries where i) NEPRA has been brought under the administrative control of MoW&P, ii) OGRA under Petroleum & Natural Resources Division, iii) PTA and Frequency Allocation Board to Information Technology and Telecom Division and iv) Public Procurement Regulatory Authority under the Finance Division.
- According to the fortnightly report of Pakistan Cotton Ginners Association (PCGA), cotton arrival up to Dec 15'16 stood at 10.14mn bales, rising 12.3%YoY. Ginneries in Punjab recorded arrival of 6.4mn bales with increase of 19.38%YoY while Sindh ginneries recorded arrival of 3.7mn bales, up 1.86%YoY.
- The Senate passed a resolution that recommended the government to take necessary steps to withdraw high denomination PKR5,000 notes from circulation to reduce illicit money flow, encourage the use of bank accounts and reduce the size of undocumented economy.

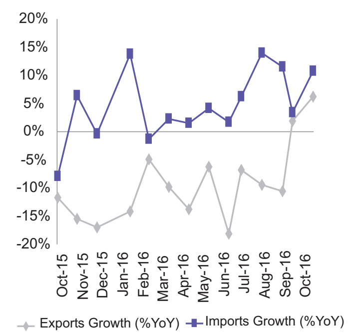


Muneeba Shoaib
muneeba.shoaib@akdsecurities.net
111-253-111 Ext:634

Pak-Economy: external account slippages gaining prominence

Balance of payment metrics in Nov'16 have remained unimpressive. While exports for the month marked slight recovery with 6.2% sequential rise, they remain flat on YoY basis which coupled with 6.0%MoM/10.8%YoY rise in imports has pushed the trade deficit 10.5%MoM/14.3%YoY higher. While remittances improved 3.3%YoY for the month to US$1.61bn, dip in flows from GCC region at 0.8%YoY still remains a concern. Foreign investment inflows netted at US$87.2mn in Nov'16, down 41%YoY, where FDI stood at US$143.7mn (down 37%YoY) as inflows from China have been slow this fiscal year (China's share in 5MFY17 down to 34% from 45% in comparative period last year). Going forward, BoP trends are expected to worsen; with low room for fast paced recovery in exports we see FY17F trade deficit expanding by 14%YoY which coupled with flattish remittance flows should keep CAD deficit at 1.7% of GDP for FY17

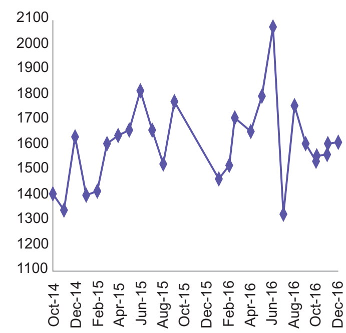
Import vs. Exports Growth



Source: PBS & AKD Research

Exports uptick on seasonal trend: As per PBS data, trade deficit for Nov'16 clocked in at US$2.49bn, marking a considerable jump of 10.5%MoM/14.3%YoY. While exports have managed to mark a sequential rise of 6.2% on likely seasonal uptick in textiles, compared to last year the trend remains flattish. In 5MFY17 cumulative export receipts stand 3.9%YoY lower at US$8.19bn, primarily reflecting continued weakness in demand dynamics, lower competitiveness and an overvalued currency. The import bill during Nov'16 jumped 6.0%MoM/10.8%YoY to US$4.25bn taking 5MFY17 imports to US$19.96bn (up 8.8%YoY) on the back of significantly higher machinery demand in lieu of CPEC related activity. Consequently, trade deficit for 5MFY17 was recorded at 11.77bn, 19.9%YoY higher

Remittances (US$mn)

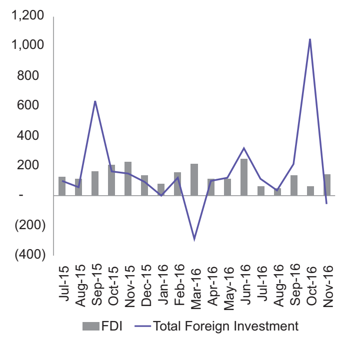


Source: SBP & AKD Research

Remittances - recovery on its way: Remittance inflows in Nov'16 clocked in at US$1.61bn (+3.3%YoY), showing improvement from trends seen in earlier months. However, flows from the GCC region dipped 0.8%YoY with the steepest decline recorded from KSA originated remittances (-4.7%YoY). Nonetheless, remittances for 5MFY17 now stand at US$7.87bn (down 2.45%YoY), showing consolidation from the sharper downtrend seen in FY17 so far. Going forward, we expect some recovery near FY17-end as seasonal triggers kick in where we expect annual flows to round up around ~US$20bn.

Foreign investment remains lackluster: Foreign investment flows have also remained lackluster for the month, with FDI reading at US$143.7mn, significantly lower than US$229mn recorded in Nov'15. In 5MFY17, net FDI has accumulated to US$460mn, ~45%YoY lower than US$840mn in the comparative period as expected investment from China has been slow to materialize during the year (down 58.3%YoY to US$156.5mn). Portfolio investments recorded outflows of US$56mn for the month though lower than US$82.4mn in Nov'15, where FYTD FPI amounts to US$1.05bn, reflecting the recent Sukuk issuance.

Total Foreign Investment (US$mn)



Source: SBP & AKD Research

External account outlook: Current account deficit for 4MFY17currently stands at US$1.76bn - widening 63%YoY and is expected to worsen further in FY17. In this regard, low room for fast paced recovery in exports and the recent surge in oil prices (Brent up 10%MTD) is expected to weigh on the trade balance going forward (FY17F trade deficit: 14%YoY) as flattish remittances will fail to provide support. We reiterate our FY17 CAD projection at 1.7% of the GDP.

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

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

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.