

PAKISTAN STRATEGY

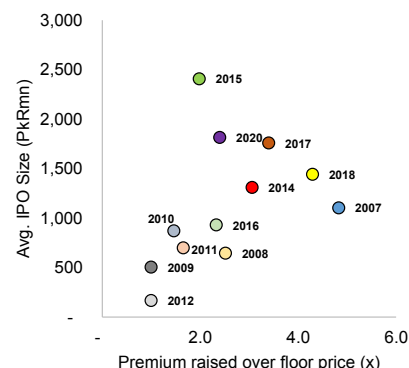
MARKET VISTA

Capital markets keep the taps running during 2020

- Posting a strong rebound from CYTD lows (KSE-100 up 59% from March low) domestic equity markets broadened significantly, with three IPOs conducted during the second half, raising Pkr5.4bn (Pkr1.8bn per transaction raised on avg) in line with the mean of IPO traffic over the last ten years (~4 IPOs, Pkr1.6bn per transaction), in an otherwise rough year
- Continuing to provide liquidity in the secondary market as well, sixteen rights issues were declared during the outgoing year, where bonus issuance subsided (18 declared CYTD vs. 40 during 2019) where an upswing in profitability coupled with low risk free rates following drastic easing lent comfort to secondary capital issuance
- For IPOs conducted during the year, premium raised over floor price stood at 1.3x, in-line with the 10yr avg. of 1.6x but above last year's single transaction premium of 1.0x, emboldening companies looking to list, where a host of factors have prompted listings as well
- Conducive factors driving listings include the completion of listing regulations overhaul (including Public Offerings Regulations, Companies Act & Securities Act requirements) notified at the beginning of the year, harmonizing the disparate regulatory structure required for listing, while continuation of tax incentives remained a catalyst for public market entry
- Armed with improved volumes (with strong broad-based participation), fading out of COVID led uncertainty driving investor fatigue, and macro situation returning to normal, capital raises are likely to remain in the limelight for CY21 as well.

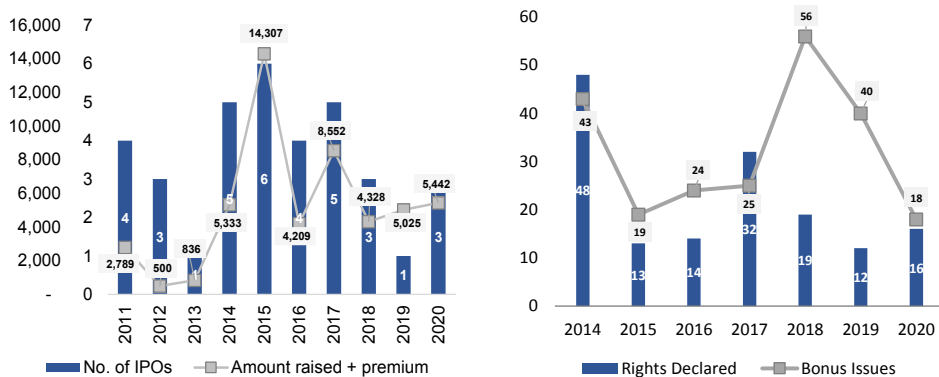
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2020 was mid-range for premiums and avg. IPO size (excluding single IPO yrs)



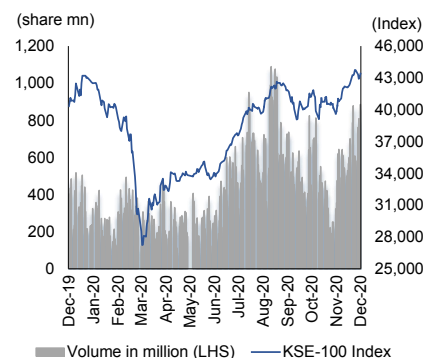
Source: PSX & AKD Research

CY20 was a strong year for IPOs with capital raised at 3yr high as rights issues remained prominent



Source: PSX & AKD Research

KSE100 Index performance in CY2020



Source: PSX & AKD Research

Allocating capital in a difficult year: The PSX witnessed three primary capital raises during the year, concentrated in the second half (post strong pullback following restrictive COVID measures imposed in March'20) providing significant runway to raise funds. Overall, IPOs raised Pkr5.4bn in capital at a 1.3x premium to floor price, with avg. transaction size of Pkr1.8bn. While the number of transactions witnessed significant uptick from last year's lone IPO, the quantum of funds raised remained stable (Pkr5.4bn in 2020 vs. Pkr5.0bn in 2019) and near the 10yr avg. annual raise of Pkr5.1bn. That said, capital raises have significant room to make up for when compared to recent high water mark of Pkr8.5bn/Pkr14.3bn raised in 2017/2015 with 5/6 transactions taking place. As for listed companies raising capital, sixteen rights issues were declared during the outgoing year compared to 12 issues declared in 2019 and five year average of



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~19 rights issues. On the flipside, bonus issuance subsided (18 declared CYTD vs. 40 during 2019) where an upswing in profitability coupled with low risk free rates following drastic easing lent comfort to secondary capital issuance. For IPOs conducted during the year, premium raised over floor price stood at 1.3x, in-line with the 10yr avg. of 1.6x but above last year's single transaction premium of 1.0x, emboldening companies looking to list, where a host of factors have prompted listings as well.

Outlook: Armed with improved volumes (with strong broad-based participation), fading out of COVID led uncertainty driving investor fatigue, and macro situation returning to normal, capital raises are likely to remain in the limelight for CY21 as well. Additionally, we flag the possible continuation of CY20's sectoral diversification (three listings in three different sectors) as a robust trend broadening the scope of public markets and affording investors greater avenues for diversification.

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- Discounted Cash Flow (DCF, DDM)
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- Equity & Asset return based methodologies (EVA, Residual Income etc.)

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| | |
|---------|---|
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| Neutral | > 8.5% to < 14.5% expected total return |
| Sell | < 8.5% expected total return (Rf: 8.5%) |



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