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PAKISTAN
MARKET

REP-019
MARKET
VISTA

Jan'19—It's lights out, and away we go!

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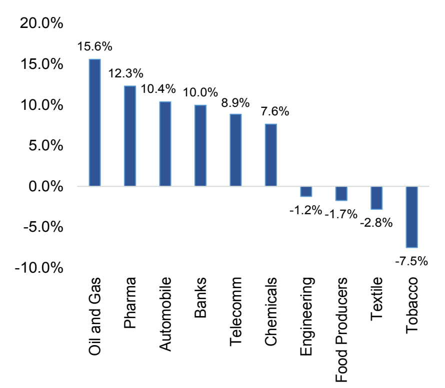
- **Launching into CY19 with a major course correction, Jan'19 returned 10.1%MoM, the strongest monthly performance for the KSE-100 in 24 months (Dec'16 return of 12.2%), where a bolstered FX position (inflows from KSA, UAE, and recently China) and market positive measures in the mini-budget shored up investor confidence**
- **Average daily traded volumes for the KSE-100/KSE ALL moved -4.1/+4.1%MoM, showcasing a drift to side stocks (KSE100 vol as % of KSE All at 64.2% vs. 69.7% in Dec'18), in a month with inflows sourced through FIPI (US$16.18mn inflow), Mutual funds (US$16.6mn inflows) and Brokers (US$8.0mn inflow), while Insurance (US$19.1mn outflow) and Individuals (US$9.1mn outflow) sapped liquidity**
- **Key catalysts drove main-board sectors firmly in the green, led by E&Ps (+15.6%MoM) on encouraging news flows regarding off-shore drilling prospects, followed by Autos (+10.4% MoM) on removal of non-filer ban on 1300CC car segment and Commercial Banks (+10.0%MoM) on NIM expansion amidst the current cycle of monetary tightening**
- **The GoP seems to be walking a thin line between managing a shaky external situation, while delaying a prospective IMF program (still necessary in our view), and acceding fiscal space (via Supplementary Finance Bill) to kick-start industrial activity, where levers of tightening monetary policy are seen to be increasingly consequential over the near term**
- **We reiterate our guidance on investors adopting long term horizons, having a preference for sectors that are hedged to interest rates and FX weakness, cushioning against blowback from possible fiscal slippages, aggressive tightening or delays in approaching the IMF. We continue to like banks (top pick: MCB, ABL), unleveraged plays (OGDC, PPL, INDU) and exchange rate sensitive selected plays (NML, HUBC).**

FIPI -Jan'19: Sector Performance

(USD mn)	Net Buy/(sell)
All other Sectors	1.01
Cement	0.18
Banks	19.68
Fertilizer	2.55
Food and Personal	(0.07)
Oil and Gas Explor	(0.92)
Oil and Gas Marke	(2.42)
Power Generation	(2.13)
Technology and Co	(0.08)
Textile Composite	(1.63)
Net	16.18

Source: NCCPL & AKD Research

Jan'19: Sector Performance



Source: PSX & AKD Research

Late Christmas for the PSX: Riding into the new year with a fresh slate, the KSE-100 Index pushed by a supportive supplementary budget (favoring activity), bolstered FX position (inflows materializing from GCC, Asian allies) and improved Pak-US relations (potential for positive spillovers for IMF, FATF negotiations). All in all, the KSE-100 index returned 10.1%MoM in Jan'19, continuing its spell of positive returns for the first month of the year (now in 9th year with only exception being Jan'16) reversing weakness prevalent since 4QCY18 (KSE-100 fell 9.2%). Average daily traded volumes for the KSE-100/KSE ALL moved -4.1/+4.1%MoM, showcasing a drift to side stocks (KSE100 vol as % of KSE All at 64.2% vs. 69.7% in Dec'18), in a month with inflows sourced through FIPI (US$16.18mn inflow), Mutual funds (US$16.6mn inflows) and Brokers (US$8.0mn inflow), while Insurance (US$19.1mn outflow) and Individuals (US$9.1mn outflow) sapped liquidity.

Oil & Gas and Autos led sector performance: Sector wise performance was led by E&Ps (+15.6%MoM) on encouraging news flows regarding off-shore drilling prospects, followed by Autos (+10.4%MoM) on removal of non-filer ban on 1300CC car segment and Commercial Banks (+10.0%MoM) on NIM expansion amidst the current cycle of monetary tightening. Welcoming a weak PkR, relative strength on the external position and slowing global monetary tightening (US FOMC in Jan'19 decided to hold off on hikes) FPI rushed into Commercial Banks (US$19.7mn), while recording some inflows for Fertilizers (US$2.6mn), while exiting OMCs (US$2.4mn) and Power generation (US$2.1mn) during the month.

Investment Perspective: The GoP seems to be walking a thin line between managing a shaky external situation (targeting GCC and Asian countries for funds) while delaying a prospective IMF

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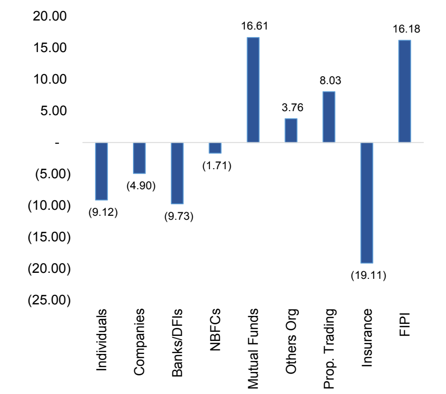
program (still necessary in our view), and acceding fiscal space (GIDC rationalization and incentivizing Greenfield ventures) to kick-start industrial activity, where the levers of tightening monetary policy are seen to be consequential over the near term. Continuation of earnings reads from sector heavy Banks, E&Ps, Cements, Fertilizers, OMCs and Autos, could play into wider macro developments, where any misses to the downside (particularly for consumer cyclical plays) could trigger negativity at the bourse. In this backdrop, we reiterate our guidance for investors to adopt long term horizons, having a preference for sectors that are hedged to interest rates and FX weakness, cushioning against blowback from possible fiscal slippages, aggressive tightening or delays in approaching the IMF. We continue to like banks (top pick: MCB, ABL), unleveraged plays (OGDC, PPL, INDU) and exchange rate sensitive selected plays (NML, HUBC).

Jan'19: FIPI vs. LIPI



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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