AKD Daily

Monday, Feb 20, 2017

Today's Daily

Pakistan Economy: Pressures on rupee more imminent

Sliding even more sharply, current account deficit was recorded at US$1.19bn in Jan'17 compared to US$1.02bn in Dec'16. The dip came on the back of 7.3%MoM increase in trade deficit and 6%MoM decline in Jan'17 remittance flows. Consequently, 7MFY17 deficit now stands at US$4.7bn (1.5% of GDP), up 90%YoY from US$2.5bn in 7MFY16 where going forward we expect sharper deterioration with CAD rounding off at 1.85% of GDP in FY17 on weaker trade deficit (FY17F: 14%YoY) and slowdown in remittance (FY17F: 1.5%YoY). This adds to already worsening fx reserve position as foreign debt flows (net of repayments) in 7MFY17 at ~US1bn have been lower than US$1.3bn in the corresponding period. Resultantly, import cover on SBP held reserves now stands at 4.6m compared to 5.4 at FY16-end, opening room for considerable pressures on PkR/US$ parity. Currently, reiterating our FY17 PkR/US$ avg. depreciation forecast of 1.7%YoY we flag space for further devaluation if import cover dips below 4.3m during the year, particularly with hefty repayments (~US$1.2bn in Jun'17) looming ahead.

KSE100 - Index

Current	49,375.71
Previous	49,588.30
Chg.	-0.43%

Mkt Cap. (PkRbn/US$bn)

Current	9,798 / 93.48
Previous	9,817 / 93.66
Chg.	-0.19%

Daily Turnover (mn)

Current	373.30
Previous	263.26
Chg.	41.8%

Value Traded (PkRmn/US$mn)

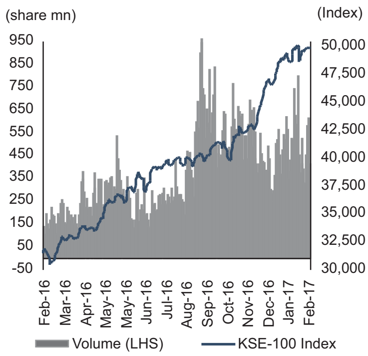
Current	20,329 / 193.94
Previous	14,272 / 136.16
Chg.	42.4%

News and Views

- Independent consultants, KPMG have suggested allowing 5% unaccounted for gas (UFG) losses allowance to gas utilities in consumer tariff for the next 5yr with targets for their gradual decline. The proposed UFG benchmark was the highest in comparable gas markets and that its conclusion was mostly based on contributions and arguments of the gas utilities in addition to the regulator. At present, SNGPL is allowed to recover 4.5% losses from the consumers, while the level is 7% for SSGC.

- The GoP is likely to enhance sugar export quantity from 0.25mn tons to 0.5mn tons without subsidy aimed at stabilising the market and ensuring payments to the growers.

- SECP is likely to relax certain regulations on stock futures in an attempt to enable the Pakistan Stock Exchange (PSX) to roll out new derivative products. The SECP constituted a seven-member committee to review the product structure, operational aspects of regulatory regime of cash-settled derivatives and circuit breaker regime.



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

AKD Daily
Monday, Feb 20, 2017

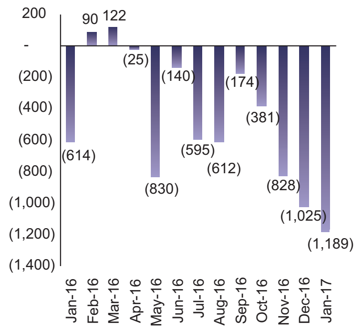
Pakistan Economy: Pressures on rupee more imminent

Sliding even more sharply, current account deficit was recorded at US$1.19bn in Jan'17 compared to US$1.02bn in Dec'16. The dip came on the back of 7.3%MoM increase in trade deficit and 6%MoM decline in Jan'17 remittance flows. Consequently, 7MFY17 deficit now stands at US$4.7bn (1.5% of GDP), up 90%YoY from US$2.5bn in 7MFY16 where going forward we expect sharper deterioration with CAD rounding off at 1.85% of GDP in FY17 on weaker trade deficit (FY17F: 14%YoY) and slowdown in remittance (FY17F: 1.5%YoY). This adds to already worsening fx reserve position as foreign debt flows (net of repayments) in 7MFY17 at ~US1bn have been lower than US$1.3bn in the corresponding period. Resultantly, import cover on SBP held reserves now stands at 4.6m compared to 5.4 at FY16-end, opening room for considerable pressures on PkR/US$ parity. Currently, reiterating our FY17 PkR/US$ avg. depreciation forecast of 1.7%YoY we flag space for further devaluation if import cover dips below 4.3m during the year, particularly with hefty repayments (~US$1.2bn in Jun'17) looming ahead.

Current account - worsening scenario: Crossing a new historic high for monthly balance, Jan'17 current account deficit came at US$1.19bn, higher by US$164 than last month's deficit. This primarily remained a function of 7.3%MoM increase in the trade deficit to US$2.4bn reflecting 4.1%MoM dip in Jan'17 exports. Additionally, decline in remittance flows to US$1.48bn from US$1.58bn in Dec'16 on seasonal trends further dented current account dynamics. Cumulatively CAD now stands at US$4.72bn in 7MFY17, nearly double of US$2.48bn recorded in deficit in same period last year. This also underpins considerable increase in imports seen over the year (up 9.2%YoY in 7MFY17) taking trade deficit to US$13.2bn (higher by 21.1%YoY) in the same period. Going forward, we see little room for consolidation in CAD as higher oil prices will likely push greater rise in the import bill. While we expect remittances to normalize over the year, they are projected to remain flat nonetheless compared to FY16 (FY17F: US$20bn). For the ongoing fiscal year, we expected current account deficit to cross 1.85% of GDP (vs. 1.2% in FY16) - already standing at 1.5% in 7MFY17.

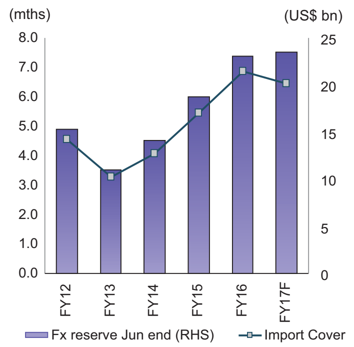
Fx reserve - at the border: Along with current account deterioration, fx reserves are now an emerging concern on the balance of payment front where reserves held by SBP have marked a decline of US$1.2bn CYTD and US$1.9bn from its peak in Oct'16. This primarily reflects US$791mn external debt repayments made in Jan'17 followed by the bulky US$500 repayment under SAFE deposit this month. Consequently, SBP held fx reserves now stand at US$16.99bn implying an import cover of 4.6m, sharply lower than 5.4m at FY16-end. Going forward, we see limited

Current Account (US$mn)



Source: SBP & AKD Research

Fx reserve vs import cover



Source: SBP & AKD Research

recovery on the reserve front as expected foreign inflows materialize (US$300mn from DPC financing, ~US$1.8bn from ADB in CY17). However, we highlight that timely disbursement for these flows will remain crucial, particularly before hefty ~US$1.2bn repayment (Eurobond, Paris Club) scheduled for Jun'17. In this backdrop, we flag significant risks to Rupee's strength as import cover frails. We reiterate our PkR/SU$ depreciation forecast for FY17 at 1.7%YoY (PkR106.2/US$ avg. for FY17), where slippages in SBP import cover below 4.3m (fx reserve dip by ~US$1bn) can prompt the PkR to see greater devaluation during the year.

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.