

## CAD starts responding to Stabilization measures

- Latest numbers on external account show marked improvement in CAD, with Jan'19 deficit significantly narrowing by 54%YoY/48%MoM to US\$809mn. Importantly, reduction in deficit was primarily driven by trade balance, particularly import led, signifying weakness in aggregate demand.
- Encouragingly, trade deficit narrowed 30%YoY/21%MoM to US\$2,310mn, courtesy secular decline in imports (-12%YoY/-6%MoM). Exports including both goods & services also surged 9%YoY/12%MoM to US\$2,309mn owing to volumetric gains.
- Overall, 7MFY19 CAD now stands 17%YoY lower at US\$8,424mn vs. US\$10,124mn in 7MFY18, averaging US\$1.20bn per month vs. US\$1.45bn per month in FY18.
- We expect a more pronounced impact of domestic demand contraction on CAD in the remaining FY19 and estimate full year CAD to round up at US\$14.05bn (5.0% of the GDP).

**CAD narrows 54%YoY/48%MoM in Jan'19:** Latest SBP data on external account shows marked improvement in CAD, with Jan'19 deficit shrinking 54%YoY/48%MoM to US\$809mn. Importantly, the reduction in deficit was primarily driven by noticeable improvement in trade imbalance, which went down 30%YoY/21%MoM to US\$2,310mn. Both imports and exports witnessed diverging trends, where total imports (i.e. goods & services) dropped 12%YoY – signifying contraction in aggregate demand, while despite soft commodity prices, total exports rose 9%YoY owing to volumetric gains. Remittances – another crucial source of FX earnings – are marginally up 6% YoY at US\$1,743mn. Overall, 7MFY19 CAD now stands 17%YoY lower at US\$8,424mn vs. US\$10,124mn in 7MFY18, averaging US\$1.20bn per month vs. US\$1.45bn per month in FY18.

### External Account (US\$m)

	Jan'19	Jan'18	YoY%	Dec'18	MoM%	7MFY19	7MFY18	YoY%
Current account balance	(809)	(1,744)	-54%	(1,544)	-48%	(8,424)	(10,124)	-17%
Exports of Goods	2,309	2,100	10%	2,004	15%	14,150	13,931	2%
Imports of Goods	4,422	4,930	-10%	4,578	-3%	31,763	31,519	1%
Balance on Trade in Goods	(2,113)	(2,830)	-25%	(2,574)	-18%	(17,613)	(17,588)	0%
Balance on Trade in Services	(197)	(463)	-57%	(367)	-46%	(2,091)	(3,208)	-35%
Workers' Remittances	1,743	1,639	6%	1,749	0%	12,773	11,384	12%

Source: SBP & AKD Research

**Outlook:** A segregated analysis of 7MFY19 trade data indicates broad based decline in imports (Non-oil, Agri & chemicals import: -10%YoY), with more noticeable declines in capital goods (machinery: -23%YoY), raw materials (iron & steel scrap: -13%YoY) and luxury items, signifying that the external imbalance is responding to stabilization measures undertaken so far. We expect the impact of the said measures to be more pronounced in the remaining FY19, and estimate full year CAD to round up at US\$14.05bn (5.0% of the GDP). The key risk to our view is the direction of commodity prices particularly oil, where we highlight that every US\$5/bbl increase in average crude prices (ceteris paribus) raises our CAD estimate by US\$458mn.

**BoP – IMF is the key:** On a BoP front, negotiations on potential bailout are underway between the GoP and the IMF, with differences on policy framework under the program narrowing, according to the gov't officials. We expect the authorities to reach a deal by the end of FY19, with initial policy focus on the fiscal side, considering the fiscal side of equation remains largely un-addressed. The authorities' attempts to fix the same remain short of target. Upcoming FY20 budget would be key checkpoint in this regard, in our view.

Umer Farooq  
umer.farooq@akdsecurities.net  
111-253-111 Ext:602

### Current Account deficit (US\$m)



Source: SBP & AKD Research



AKD Securities Limited

## 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

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 and other considerations. AKDS uses a three tier rating system: i) Buy, ii) Neutral and iii) Sell (new rating system effective Sep 10'18) with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10yr PIB) plus risk premium.

### New Rating Definitions

Buy	> 19% expected total return (Rf: 13% + Rp: 6%)
Neutral	> 13% to < 19% expected total return
Sell	< 13% expected total return (Rf: 13%)

### Old Rating Definitions (Discontinued)

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

## Valuation Methodology

To arrive at our period end target prices, AKDS uses different valuation techniques including:

- Discounted Cash Flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

## 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.

Furthermore, all copyrights, patents, intellectual and other property in the information contained in this report are held by AKDS. No rights of any kind are licensed or assigned or shall otherwise pass to persons accessing this information. You may print copies of the report or information contained within herein for your own private non-commercial use only, provided that you do not change any copyright, trade mark or other proprietary notices. All other copying, reproducing, transmitting, distributing or displaying of material in this report (by any means and in whole or in part) is prohibited.

For the United States

## Compliance Notice.

This research report prepared by AKD Securities Limited is distributed in the United States to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended) only by Decker & Co, LLC, a broker-dealer registered in the US (registered under Section 15 of Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Decker & Co, LLC in the US shall be borne by Decker & Co, LLC. All resulting transactions by a US person or entity should be effected through a registered broker-dealer in the US. This report is not directed at you if AKD Securities Limited or Decker & Co, LLC is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that Decker & Co, LLC and AKD Securities Limited are permitted to provide research material concerning investment to you under relevant applicable legislations and regulations.