



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
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### Today's Daily

#### ■ Pakistan Economy: PkR losing ground on BoP weakness

Interest rate hike in the confluence with an unexpected currency adjustment took toll on the market with the KSE-100 index losing 1.5% in market capitalization. Economic concerns pertaining to the escalating external imbalance and consequent slippage in FX reserves, rising fiscal deficit and buildup of inflationary pressures have come to the fore reinforcing the view of imminent entry into another IMF program. The recent round of devaluation marks the fourth currency adjustment in the last eight months where we expect further volatility until IMF program (base case PkR/US\$ parity at 133 by Jun'19). In this backdrop, we expect currency devaluation to emerge as a key investment theme benefitting exporting (Textiles and IT) and dollar hedged (IPPs, E&Ps) sectors. As an extended advantage, Commercial Banks should also stand to benefit from consequent increase in interest rates while Cements, Fertilizer, Pharmaceuticals and Autos are expected to suffer on higher input costs. Our preferred plays include MCB, HBL, OGDC, NML, HUBC and LUCK.

#### KSE100 - Index

Current 39,665.77  
Previous 40,271.00  
Chg. -1.50%

#### Mkt Cap. (PkRbn/US\$bn)

Current 8,192 / 64.00  
Previous 8,317 / 64.98  
Chg. -1.51%

#### Daily Turnover (mn)

Current 147.48  
Previous 124.75  
Chg. 18.2%

#### Value Traded (PkRmn/US\$m)

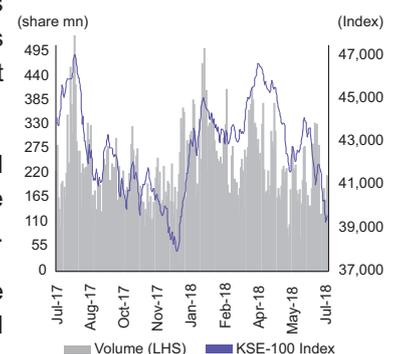
Current 6,086 / 47.55  
Previous 5,743 / 44.87  
Chg. 6.0%

AKD Daily

Tuesday, Jul 17, 2018

### News and Views

- The FBR announced that it has received data of all immovable properties owned by Pakistanis in the UK from tax authorities there. The data was received with the assistance of OECD and UK Tax Authorities, a short three-line press release issued by the FBR announced.
- The CDWP has deferred 17 projects for the approval of the next elected government as the interim government was not mandated to approve new projects or projects with extended scope of work or cost escalation.
- ADB on Monday agreed to loan US\$200mn to a new fund set up by the government to reduce socioeconomic and fiscal vulnerability to natural hazards, while the lender committed another US\$1bn for the initiative over the next decade.
- The SBP on Monday imposed 100% cash margin on the imports of 131 mostly non-essential items for the consumers in its latest attempt to curb a hefty trade deficit that is depleting foreign exchange reserves at a faster pace.



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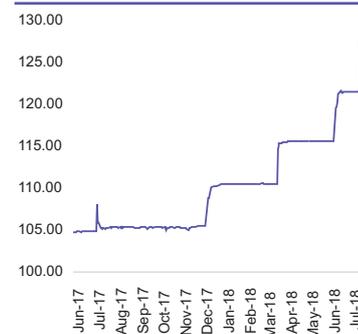
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**Currency adjustment signifies external imbalance:** SBP allowed currency parity to drift further ending at PkR128/US\$ in the interbank market -implying ~5.0% depreciation. This marks the fourth round of currency adjustment in the last eight months with PkR losing cumulative 18.4% against the greenback (PkR devalued 14.0% in FY18). Currency adjustment along with 100bps hike in interest rate over the weekend was primarily done to neutralize weakness on the BoP front and counter increased demand within the economy. With regards to the external sector, the current account deficit has reached 5.5% of GDP in 11MFY18 - the highest in the last eight years- on account of growing trade deficit (up 19.1%YoY). This has subsequently led to a sharp drawdown in FX reserves (SBP FX reserves down US\$4.6bn in CY18TD) limiting the SBP's ability to maintain currency parity.

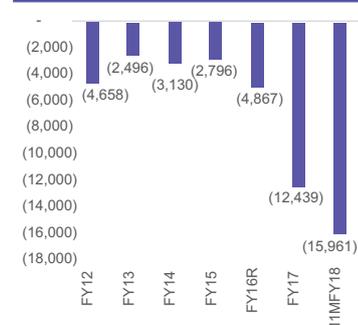
**Rupee Outlook:** With the caretaker setup failing to materially boost FX reserves (current repatriation under amnesty scheme at just US\$40mn reportedly), we expect currency to remain volatile in the short run. Our current expectation for the parity now stands at PkR133/US\$ (previously at PkR128/US\$) with our base case incorporating re-entry into the IMF program given the BoP crisis at hand (SBP import cover can go below 1 month in the absence of a bailout program). This remains a key assumption where any delay in materialization of IMF financing facility can push currency parity beyond our estimates.

PkR depreciation against the greenback (PkR/US\$)



Source: Bloomberg & AKD Research

Current account deficit (US\$mn)



Source: SBP & AKD Research



## Pakistan: IMF lending programs & Economic Indicators

Program	Facility		Amount (SDR mn)		KSE-100 Cum. Performance	PKR	
	Start	End	Committed	Drawn		Cumm. Dep.	Ann. Dep.
Extended Fund Facility	Sep-13	Sep-16	4,393	4,393	85%	0%	0%
Standby Arrangement	Nov-08	Sep-11	7,236	4,936	28%	-10%	-4%
Extended Credit Facility	Dec-01	Dec-04	1,034	861	308%	2%	1%
Standby Arrangement	Nov-00	Sep-01	465	465	-16%	-9%	-11%
Extended Credit Facility	Oct-97	Oct-00	682	265	-25%	-22%	-8%
Extended Fund Facility	Oct-97	Oct-00	455	114	-25%	-22%	-8%
Standby Arrangement	Dec-95	Sep-97	563	295	30%	-15%	-9%
Extended Credit Facility	Feb-94	Dec-95	607	172	-41%	-12%	-7%
Extended Fund Facility	Feb-94	Dec-95	379	123	-41%	-13%	-7%
Standby Arrangement	Sep-93	Feb-94	265	88	84%	-1%	-3%
Average							-6%
Average (ex. Nov'00 deval)							-5%

Source: IMF, SBP, PBS & AKD Research

**Investment perspective:** With depreciative pressures building up, we feel currency depreciation is likely to remain a key investment theme. In this regard, sectors playing out favorably to the theme include exporting (Textiles and IT) and dollar hedged (IPPs, E&Ps) sectors while Commercial Banks should also perform in anticipation of swifter than expected interest rate hikes. Autos, Pharmaceuticals, Fertilizer and Cements stand to lose out with a weaker rupee increasing their input costs. Our top picks include MCB, HBL, OGDC, NML, HUBC and LUCK.



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Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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