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REP-108
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Today's Daily

■ Election 2018: PTI hits it out of the park!

A new day beckons! Breaking the two party hegemony, the Pakistan Tehreek-e-Insaf (PTI) looks set to form the government at the Center, having grabbed 113 National Assembly (NA) seats, as per provisional results. With Punjab too close to call, governance will be a key question particularly in the event of PML-N forming the govt. in the province – a lot will hinge on independents in this case. That said, with the PTI closing in on a strong NA mandate (albeit with some coalition partners), the market is likely to cheer the result as a hung parliament had seemingly been priced in previously. In its initial days, the PTI govt. will have to grapple an economy with a burgeoning current account deficit (5.7% of the GDP in FY18), dwindling FX reserves (SBP reserves: US\$9.1bn as of Jul 13'18) and narrow tax base (less than 1% of the population files tax return). Much will depend on the initial realistic roadmap while from the market's vantage, investors are likely to wait keenly for newsflow regarding entry into an IMF program. Initial market euphoria is likely to remain strong where thematic exposure in Banks (interest tightening), Oil & Gas (PKR deval.) and IPPs (PKR deval.) is recommended.

KSE100 - Index

Current 41,339.22
Previous 40,463.98
Chg. 2.16%

Mkt Cap. (PKRbn/US\$bn)

Current 8,496 / 66.21
Previous 8,353 / 65.09
Chg. 1.71%

Daily Turnover (mn)

Current 190.85
Previous 109.00
Chg. 75.1%

Value Traded (PKRmn/US\$m)

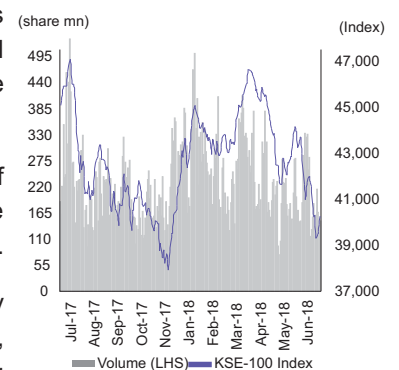
Current 7,726 / 60.21
Previous 5,104 / 39.78
Chg. 51.4%

AKD Daily

Thursday, Jul 26, 2018

News and Views

- Delayed voting results followed by lower than expected turnouts in various parts of the country give rise to post-poll tensions as major political parties including PML-N, PPP express dissatisfaction over the outcome of the national polls.
- Ministry of Finance and FBR officials are reportedly in the process of overturning major budgetary relief measures introduced in the Finance Act 2018, including aspects of the foreign asset declaration scheme.
- As per the figures of PBS, import of cars mostly three years old rose by 6% to US\$456mn in FY18 from US\$431mn in FY17. Some new entrants, who would start assembly in the next one to two years, are also bringing in brand new imported vehicles to test in the Pakistani market.?



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Election 2018: PTI hits it out of the park!

A new day beckons! Breaking the two party hegemony, the Pakistan Tehreek-e-Insaaf (PTI) looks set to form the government at the Center, having grabbed 113 National Assembly (NA) seats, as per provisional results. With Punjab too close to call, governance will be a key question particularly in the event of PML-N forming the govt. in the province – a lot will hinge on independents in this case. That said, with the PTI closing in on a strong NA mandate (albeit with some coalition partners), the market is likely to cheer the result as a hung parliament had seemingly been priced in previously. In its initial days, the PTI govt. will have to grapple an economy with a burgeoning current account deficit (5.7% of the GDP in FY18), dwindling FX reserves (SBP reserves: US\$9.1bn as of Jul 13'18) and narrow tax base (less than 1% of the population files tax return). Much will depend on the initial realistic roadmap while from the market's vantage, investors are likely to wait keenly for newsflow regarding entry into an IMF program. Initial market euphoria is likely to remain strong where thematic exposure in Banks (interest tightening), Oil & Gas (Pkr deval.) and IPPs (Pkr deval.) is recommended.

Elections'18 – The Outcome: Unofficial polling results indicate that Imran Khan led PTI has emerged victorious in a high-stakes 2018 election, bagging 113 NA seats in the lower house, while Sharif's PML-N (losing ground both in its strong-hold Punjab and at a national level) came out as the second largest party, securing 63 NA seats. PPP - third largest party after General Election 2018 – managed to retain its vote bank in Sindh, with 40 NA seats tally. On the provincial side, Punjab currently looks to close to call where independents are likely to dictate whether PTI or PML-N form the government. At the same time, as expected, PPP will once again form the govt. in Sindh while PTI has won the province of KPK – though the magnitude of PTI's win in KPK has been somewhat a surprise. The government in Balochistan looks likely to be formed by the Balochistan Awami Party (BAP) with coalition partners.

PTI to form coalition gov't at the center: Without absolute majority, PTI would need to pair up with coalition partners to form the government at the center. We expect PTI to ally with independents and nationalist parties, as these coalition partners would allow the party to smoothly implement its reforms agenda. To expand its social reform agenda, PTI also needs to form a government in Punjab (largest province by population with 51.74% share in total divisible resources under 18th Amendment) where according to primarily results PTI and PML-N are neck and neck so far. As for foreign policy, PTI's stance with the US is expected to be on a parallel footing leaning towards a nationalist agenda while overtures

National Assembly: PTI takes the lead

	2018*	2013
PTI	113	28
PML-N	63	126
PPP	40	33
MQM	7	19
MMA	11	14
IND	19	27
Others	19	25
	272	272

Source: News Report & AKD Research
*Average results as per different media outlets

Punjab: PML-N, PTI in a neck and neck race

	2018*	2013
PTI	102	24
PML-N	109	214
PPP	5	6
Independents	30	39
Others	51	14
	297	297

Source: News Report & AKD Research
*Average results as per different media outlets

KPK: History is changing

	2018*	2013
PTI	60	44
ANP	5	4
IND	5	2
MMA	4	20

Source: News Report & AKD Research
*Average results as per different media outlets

Sindh: PPP maintains its votebank

	2018*	2013
PPP	59	65
PTI	12	3
GDA	10	7
MQM-P	6	36
PML-N	3	6

Source: News Report & AKD Research
*Average results as per different media outlets

Baluchistan: BAP taking the lead

	2018*	2013
BAP	10	0
MMA	8	6
BNP	6	2
IND	6	0
PTI	3	0
ANP	3	1

Source: News Report & AKD Research
*Average results as per different media outlets



towards China will likely to be pursued, in our view. On the other hand, civil-military relations are expected to be cordial based on dovish rhetoric of the leadership - at least initially.

Long term focus – Economic Themes: The incoming government's initial focus is likely to be economic stability where dwindling reserves and widening twin deficits should result in an imminent entry into an IMF program. Over a longer term horizon, the PTI government is likely to focus on its election themes including i) controlling corruption, ii) increasing tax base (presently less than 1% of the population files tax return), iii) job creation and iv) revival of sick / bleeding govt. units. With regards to the latter, it will be interesting to see if the incoming government is able to revive the sick units (long term game) or goes for privatization in the near term – something it was vehemently opposed to.

Market Focus: Emergence of a clear mandate should result in strong market performance in the near term. That said, despite the KSE-100 trading at an attractive FY19F P/E of 7.3x, investor sentiment is likely to take cue from the incoming government's initial policies particularly with respect to entry into an IMF program. At current levels, thematic exposure in Banks (interest rates), Oil & Gas (PkR deval.) and IPPs (PkR deval.) is recommended.



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Neutral	≤ 5% to ≥ -5% potential
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