

PAKISTAN STRATEGY

MARKET VISTA

REP-019

Feb'19 was when fundamentals took a backseat

- After an orthodox Jan (where new equity allocations drive the market), profit taking was witnessed in Feb'19 with market retreating 4.3%MoM to close at 39,054.61pts in Feb'19. Avg. volumes stood at 148mn shares during the month, marginally higher than in Jan'19 (133mn shares).
- Geopolitical tensions following the border skirmishes are likely to continue to play on the minds of the investors – at least in the near term, where knee-jerk movements reign supreme. Nevertheless, in the medium term, wider systemic constraints (fiscal and external) could weigh on sentiments, where clarity on a potential IMF program (salient points of contention, calls for specific reforms) are milestones to cross.
- Profit taking was witnessed in Feb'19 on the back of, i) economic considerations, ii) financial results of heavy-weight companies failing to surprise investors, with the energy chain forgoing key mid-year payouts, and iii) geo-politics (at the tail-end of the month), giving rise to risk-off sentiments.
- Foreign participation in Feb'19 witnessed a progression from what we saw in Jan'19, with inflows being +US\$32.3mn in Feb'19 vs. +US\$16.2mn in Jan'19 (Cumulative Inflows CY19TD: US\$48.5mn vs. totaled 4QCY18 outflows of US\$214.7mn) with participation centered on Cements (US\$11.0mn) and Commercial banks (US\$9.8mn).

Profit taking witnessed in Feb'19: After an orthodox Jan (where new equity allocations drive the market), profit taking was witnessed in Feb'19 as, i) economic considerations (macro uncertainty with regards to structural hurdles and addressing the 'twin deficits') rose to the fore and ii) financial results of heavy-weight companies failing to surprise investors (with negatives being felt on UBL due to possibly higher provision charge hurting future earnings and on major energy chain companies including PSO, HUBC, KAPCO foregoing payouts). Further, in the latter part of the week, equities reacted to heightened cross-border tensions. Overall, the KSE-ALL index fell 4.3%MoM to close at 39,054.61pts in Feb'19. Avg. volumes stood at 148mn shares during the month, marginally higher than in Jan'19 (133mn shares). Apart from cement sector that remained flat MoM (due to foreign flows), across the board selling is witnessed in Feb'19. Heavy-weight commercial banks receded by 3.9% (no earnings surprise, provisioning risks particularly in UBL triggered fall-out), followed by Oil and Gas retreating by 2.4% (Higher inventory loss in case of PSO, circular debt restricting payouts). Amongst other sectors, Automobile and Parts witnessed a decline of 4.5% with delay in finance supplementary bill implementation causing concerns amongst investors, followed by Chemicals (down 4.3%), and textiles (strong quarterly results yet to reflect in share prices).

FIPI remained net buyers in Feb'19: Feb'19 was a progression from what we saw in Jan'19 when it comes to foreign participation. FIPI inflows were +US\$32.3mn in Feb'19 vs. +US\$16.2mn in Jan'19 (Cumulative Inflows CY19TD: US\$48.5mn vs. totaled 4QCY18 outflows of US\$214.7mn) with across the board activity, led by Cements (US\$11.0mn) and Commercial banks (US\$9.8mn). Within the local side we witnessed a complete shift in sector wise flows MoM, where Mutual funds after being a net buyer in Jan'19 (+US\$16.6mn) turned net seller in Feb'19 (-US\$36.6mn) whereas Insurance bought +US\$10.9mn in Feb'19 vs. a sell of US\$19.1mn in Jan'19. Similar trend are witnessed in Banks and prop trading activity with flows of +US\$9.42mn and -US\$9.52mn respectively in Jan'19 vs. -US\$9.73mn and +US\$8.03mn respectively in Jan'19.

Outlook: Escalated geopolitical tensions following border skirmishes are likely to continue to play on the minds of investors – at least in the near term. While 'peace gestures' from Pakistan are undoubtedly positive and welcomed internationally, we remain skeptical and reserve judgment, until the same is reciprocated by Delhi. So far, India's stance remains inarticulate, with impending national polls (Apr-May'19) pushing the incumbent BJP Government to a precarious position, where muscular responses to cross-border tensions are propagated for its domestic political base. Besides geopolitics, wider systemic constraints (fiscal and external) could weigh on sentiments, where clarity on a potential IMF program (salient points of contention, calls for specific reforms) are milestones to cross. Additionally, meeting of OPEC and NOPEC states on March 18th to assess the impact of production cuts (agreed in Dec'18, imposed from Jan'19) could sway oil prices accordingly.

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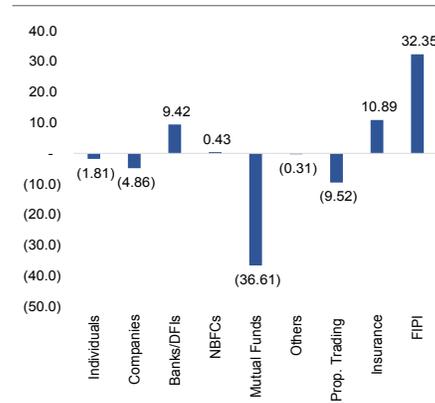
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Feb'19: Sector Performance

	Change
Cement	0.4%
Textile	-1.1%
Oil and Gas	-2.4%
Pharmaceutical	-3.3%
Banks	-3.9%
Chemicals	-4.3%
Automobile and Parts	-4.5%
Electricity	-6.1%
Engineering	-10.2%
Electronic and Electrical Goods	-12.8%

Source: PSX & AKD Research

Feb'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%)

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.)

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