

PAKISTAN STRATEGY

MARKET VISTA

REP-019

De-mystifying low volumes

- Heightened trading activity in the run-up to, and during results season have historically been a foundation of 3QFY volumes, highlighted by KSE-100 average volumes over 3QFY10-18 rising 23.7%QoQ, while the average concentration of 3QFY volumes as % of total FY volumes rests at 27% during the last nine years, indicating seasonal attraction in markets during a period of heavy event/earnings developments
- With only 11 trading days left in 3QFY19 (KSE-100/All average of 88.45/138.07mn shares), we look at the reasons behind -21.1/-24.8%QoQ decline in average KSE-100/KSE All volumes, highlighting the shallowness of markets as being motivated by lack of cohesive policy direction, relative attractiveness of other asset classes (fixed income), and idiosyncratic developments surrounding specific industrial segments
- KSE-100 index has cumulatively de-rated by ~12% in the past one year (exc. dividends) to trade at a CY19F P/E of 8.2x, while flows have witnessed a flight to blue-chip plays, with average volumes for KSE100 as a proportion of KSE-All volumes for 3QFY19TD at 64.1% vs. 3QFY11-18 average of 59.7%
- With widening appeal for re-rating, particularly in heavy-weight sectors (Banks and E&P, on ~11%QoQ earnings growth for 2QFY18) we re-iterate our CY19 Strategy stance, advocating for investors to build positions factoring-in a long term horizon, where any correction should be taken as an opportunity to accumulate.

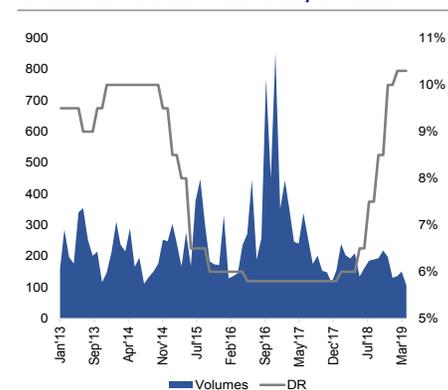
Consistently dull volumes stand contrary to trend: Heightened trading activity in the run-up to, and during results season have been a foundation of 3QFY volumes, highlighted by KSE-100 average volumes over 3QFY10-18 rising 23.7%QoQ, with only three (now four with 3QFY19TD having 52 out of 63 trading days) instances of 3QFY average volumes tapering QoQ. When looking at concentration of trading volumes on a quarterly basis, the average concentration of 3QFY volumes as % of total FY volumes rests at 27% during the last nine years, where elevated levels can be attributed to perceived performance on the basis of earnings announcements and associated developments (capital raising, CAPEX guidance). Apart from seasonality, lack of policy direction at the macro level, attractive returns in other asset classes and idiosyncratic factor (Pak-India, IPPs skipping payouts) triggered 'animal instinct', i.e. behavioral uncertainty amongst investors, contributing to 'scaring-off' potential flows.

Flashpoints that can bring back investor interest: A number of key flashpoints in the upcoming month are related to international developments in commodity markets (OPEC meetings this weekend, and semi-annual meeting mid-April) and political developments (India's general elections). For investors we believe diplomatic engagements with the FATF (Joint Group meeting in May'19) and negotiations with the IMF (possibly terms to be put before IMF Executive Board) could throttle sentiments. Lastly, Ramadan's dull trading period and market perception of returns/risk from proposed measures in the Budget FY20, should keep volumes muffled.

Investment Perspective: KSE-100 index has cumulatively de-rated by ~12% in the past one year (exc. dividends) to trade at a CY19F P/E of 8.2x. Incidentally, flows have witnessed a flight to blue-chip plays, with average volumes for KSE100 as a proportion of KSE-All volumes for 3QFY19TD at 64.1% vs. 3QFY11-18 average of 59.7%, justified by relatively stable investment returns on offer. On the flip side, where in era of weak macros (CY10-12) market had re-rated by an avg. 4.0%. This time around, potential for performance is present particularly in the heavy-weight sectors, Banks and E&Ps on newsflow on interest rate and discoveries where we opine investors to take a longer term horizon for their investments where any correction should be taken as an opportunity to accumulate. We have preference for macro-hedged sectors encompassing Banks, E&Ps, selected Power and Textiles. Our top picks include, MCB, MEBL, OGDC, HUBC and NML.

AKD Research
research@akdsecurities.net
111-253-111 Ext:639

Returns on other asset classes impact KSE vol



Source: PSX, SBP & AKD Research

Event	Expected time frame
OPEC meeting - Baku	Mar'19
Initial result of drilling activity in Kakra - 1	Apr'19-May'19
Pakistan's USD 1bn Eurobond maturity	Apr'19
OPEC meeting - Vienna	17-18 April'19
India's General Elections	Apr'19-May'19
MLCF's expansion to increase pressure on prices	Apr'19-May'19
FATF Meeting - Colombo	May'19
MSCI Semi-annual review	May'19
Budget'20	May'19-Jun'19
Dull demand season - Ramadan	May'19-Jun'19
IMF Executive Board Meeting	Jun'19
ENGRO Thar's Unit-I CoD	Jun'19

Source: 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.