

## PAKISTAN STRATEGY

# MARKET VISTA

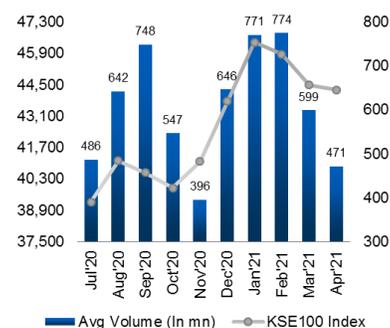
REP-019

## Apr'21: Intensifying COVID keeping market jittery

- KSE-100 index continued to move downhill in Apr'21 to close at 44,262pts, down 0.7% MoM — marking the third consecutive month of negative performance. Surging COVID cases (double digit positivity rates and +100 daily deaths) and associated measures by Govt. dented investor confidence during the month.
- Flow wise, foreigners continue to remain net seller with an outflow of US\$17.0mn, taking cumulative net sell CYTD to US\$33.4mn. On the local side, companies and mutual funds were on the selling side with net sell of US\$12.7mn and US\$4.4mn, respectively. On the other side of the spectrum, major buying activity emanated from 'Other organizations' with a net buy of US\$20.5mn followed by Individuals with a net buy of US\$7.0mn.
- Market is likely to remain volatile in the short term with attention likely to be centered around, i) COVID third wave and consequent business disruptions, and ii) budget related news flow.
- We advocate for sectors that fall on structural theme metrics where our preferred sectors are Cements, Steel, and Construction-Allied on construction theme, and Power and select -OMCs (PSO) on possible circular debt clearance.

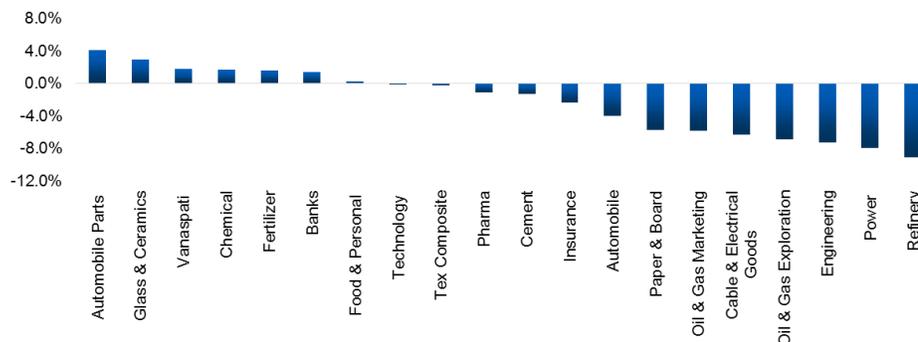
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KSE 100: Index Return vs All shares Volume



Source: PSX & AKD Research

Key Sector Performance in Apr'21



Source: PSX & AKD Research

**KSE-100 index continuing to remain in negative territory for third consecutive month:** KSE-100 index continues to move downhill in Apr'21 to close at 44,262pts, down 0.7%MoM — marking the third consecutive month of negative performance. Surging COVID cases (double digit positivity rates and +100 daily deaths) pushed the Govt. for adopting stricter measures to curb the flow of positive cases and subsequent pressure on medical facilities, dented investor confidence so much so that the continuation of strong corporate profitability in 1QCY20 and positive macro developments (RDA flows crossing US\$1bn mark, Eurobond proceeds of US\$2.5bn, FBR collection for Apr'21 surpassing target though by modest PKR36bn, etc.) went rather unnoticed. As a result of investors preferring to remain on the side, avg. volume for the month was recorded at 354.1mn shares compared to 439.3mn shares in Mar'21 whereas majority of the activity was tilted towards mid to small cap stock as indicated by KSE-100/KSE-ALL volumes at 32.8% in Apr'21 vs. 39.0% in the previous month. Sector wise, within major sectors, Chemicals and Fertilizers recorded marginal uptick of 1.6%MoM each to lead the chart while laggards were, Power generation (down 8.0%MoM) and Engineering (down 7.3%MoM). Overall, sector performance was topped by Leather and Tanneries (+19.7%MoM) while textile spinning sector recorded the worst performance (down 15.2%MoM).

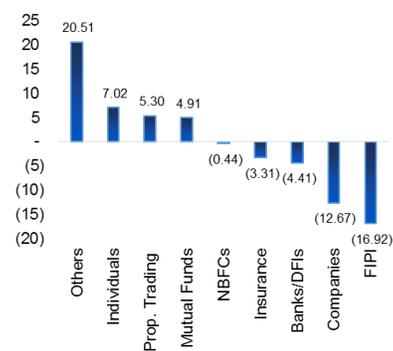


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**Foreigners, companies and mutual funds putting pressure on index:** Flow wise, foreigners continue to remain net seller with an outflow of US\$17.0mn, taking cumulative net sell CYTD to US\$33.4mn, squaring positions in Commercial Banks (net sell: US\$8.2mn), Fertilizers (net sell: US\$4.5mn), and Power stocks (net sell: US\$3.8mn). It was partly offset by fresh positions in Tech stocks (net buy: US\$6.5mn). On the local side, companies and mutual funds were on the selling side with net sell of US\$12.7mn and US\$4.4mn, respectively. On the other side of the spectrum, major buying activity emanated from 'Other organizations' with a net buy of US\$20.5mn followed by Individuals with a net buy of US\$7.0mn.

**Investment perspective:** Market is likely to remain volatile in the short term with attention likely to be centered around, i) COVID's third wave and consequent business disruptions, and ii) budget related news flows. Inflation for Apr'21 clocked in at 11.1%YoY, marking first double digit inflation release in 13M however, increasing uncertainty should keep the Central Bank at bay from increasing interest rates in the near term. Hence, we advocate for sectors that fall on structural theme metrics (likely to also remain in favor in the upcoming budget) where our preferred sectors are Cements, Steel, and Construction-Allied on construction theme, and Power and select-OMCs (PSO) on possible circular debt clearance. Further, investors can look for select positions in techs for alpha generation.

**FIPI vs LIPI Apr'21 (USD mn)**



Source: NCCPL & AKD Research

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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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|         |   |
|---------|---|
| Buy     | > 14.5% expected total return (Rf: 8.5% + Rp: 6%) |
| Neutral | > 8.5% to < 14.5% expected total return           |
| Sell    | < 8.5% expected total return (Rf: 8.5%)           |



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