



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan



REP-108  
www.jamapunji.pk

### Today's Daily

#### ■ Pakistan Economy: Economic Survey FY17- Key Takeaways

GDP growth clocked in at 5.28%, missing its 5.7% FY17 year target but achieving its highest level in a decade led by a rebound in the agriculture sector (3.46%YoY), accompanied by an upward trend in the LSM sector (4.9%YoY). Headline inflation remained well below the target of 6%YoY, at 4.09%YoY in 10MFY17 (FY17F: 4.3%YoY) providing a favorable environment for macro-economic recovery (private sector credit up by 15.8%YoY as of Apr'17). However, the economy could not perform well on the external front with the current account deficit (US\$7.6bn for 10MFY17) is expected to worsen to US\$8.3bn (2.7% of GDP vs. 1.2% of GDP in FY16) on the back of: 1) rising imports (+15.5%YoY in 10MFY17) and falling remittances (-2.79%YoY in 10MFY17). Resultantly, the pressure on fx reserves persisted with levels dipping to US\$21bn from US\$23bn at end of FY16. The GoP is also expected to miss its fiscal deficit target of 3.8% as the deficit is expected to amount to 4.2% of GDP on account of: 1) lower tax collection (Pkr2.5tn in 10MFY17 vs target of target of Pkr3.9tn in FY17), 2) relief packages announced during the year and absence of planned privatization proceeds (FY17B: Pkr50,000mn).

#### KSE100 - Index

Current 52,869.01  
Previous 52,876.46  
Chg. -0.01%

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

Current 10,445 / 99.61  
Previous 10,446 / 99.62  
Chg. -0.01%

#### Daily Turnover (mn)

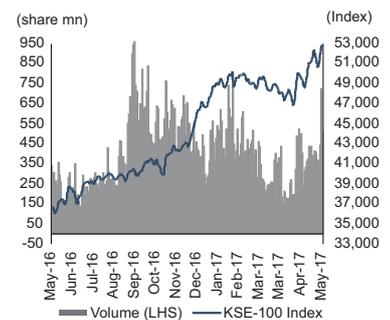
Current 408.89  
Previous 606.69  
Chg. -32.6%

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

Current 24,426 / 232.94  
Previous 23,699 / 226.01  
Chg. 3.1%

#### News and Views

- Finance minister Senator Ishaq Dar will present fiscal year 2018 budget with an estimated outlay of Pkr4.8tn on Friday (Today).
- The OPEC has agreed to extend a deal to cut crude oil production for nine months up to Mar'18. Global crude oil prices witnessed downward trend during the last trading session with WTI crude oil futures trading at US\$48.84/bbl and Brent crude oil at US\$51.45/bbl.
- The NEPRA has approved Pkr1.96/unit reduction in the power tariff under fuel price adjustment for the month of Apr'17. Earlier, the CPPA, in its petition submitted with the regulator, sought Pkr1.75/unit reduction in the power tariff on account of monthly fuel price adjustment. The reduction in tariff would not be applicable to the K-Electric and consumers using less than 300 units.
- Pakistan's electricity generation during 9MFY17 has declined 16.44%YoY to 85,206 Gw/h (vs. 101,970Gw/h during 9MFY16), as share of hydro-electric generation in the overall mix declined 4ppt to 30% due to weather conditions. However country's installed generation capacity soared 9.6%YoY to 25.1mn MWs during the 9MFY17 (vs. 22.9mn MWs in the 9MFY16).



Muneeba Shoaib

muneeba.shoaib@akdsecurities.net  
111-253-111 Ext: 634

Ammar Suria

ammur.suria@akdsecurities.net  
111-253-111 Ext: 602

**Important disclosures**, including investment banking relationships and analyst certification at end of this report. AKD Securities does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report. Investors should consider this report as only a single factor in making their investment decision.

Find AKD research on Bloomberg (AKDS<GO>), firstcall.com and Reuters Knowledge UAN: 111-253-111

Copyright©2017 AKD Securities Limited. All rights reserved. The information provided on this document 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 AKD Securities or its affiliates to any registration requirement within such jurisdiction or country. Neither the information, nor any opinion contained in this document constitutes a solicitation or offer by AKD Securities or its affiliates to buy or sell any securities or provide any investment advice or service. AKD Securities does not warrant the accuracy of the information provided herein.



## Pakistan Economy: Economic Survey FY17- Key Takeaways

GDP growth clocked in at 5.28%, missing its 5.7% FY17 year target but achieving its highest level in a decade led by a rebound in the agriculture sector (3.46%YoY), accompanied by an upward trend in the LSM sector (4.9%YoY). Headline inflation remained well below the target of 6%YoY, at 4.09%YoY in 10MFY17 (FY17F: 4.3%YoY) providing a favorable environment for macro-economic recovery (private sector credit up by 15.8%YoY as of Apr'17). However, the economy could not perform well on the external front with the current account deficit (US\$7.6bn for 10MFY17) is expected to worsen to US\$8.3bn (2.7% of GDP vs. 1.2% of GDP in FY16) on the back of: 1) rising imports (+15.5%YoY in 10MFY17) and falling remittances (-2.79%YoY in 10MFY17). Resultantly, the pressure on fx reserves persisted with levels dipping to US\$21bn from US\$23bn at end of FY16. The GoP is also expected to miss its fiscal deficit target of 3.8% as the deficit is expected to amount to 4.2% of GDP on account of: 1) lower tax collection (Pkr2.5tn in 10MFY17 vs target of target of Pkr3.9tn in FY17), 2) relief packages announced during the year and absence of planned privatization proceeds (FY17B: Pkr50,000mn).

**GDP growth shows signs of improvement:** Although missing the target of 5.7%, GDP growth was recorded at 5.28% in FY17, reaching its decade high. This jump came on the back of a rebound in the Agriculture sector (3.46%YoY in FY17F vs. 0.27% in FY16) due to a low base and an encouraging upward trend in LSM (4.9%YoY vs. 2.9%YoY in FY16). That said, Industrial growth as a whole remained lower than the preceding year (5.02%YoY in FY17F vs. 5.8%YoY in FY16) restricting real sector growth. However, with the biggest share in GDP (59.6%), Services sector partially covered the shortfall with growth of 5.98%YoY (vs. 5.55%YoY in FY16) as domestic activity spurred. Consequently, FY17F GDP stands at Pkr31.8tn (~US\$305bn) with per capita income rising to US\$1,629 vs. US\$1,527 in FY16.

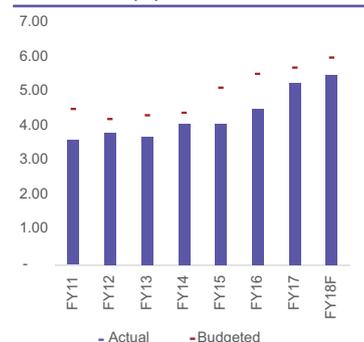
**External Account continues downward spiral:** The country's external account position weakened during the outgoing fiscal year, as the current account deficit (US\$7.6bn for 10MFY17) slipped drastically where the GoP now expects it to worsen to US\$8.3bn (2.7% of GDP vs. GoP's initial target of 1.5%) in FY17. The vulnerable situation is the result of: 1) a growing trade deficit due to a rise in imports as oil prices rose (Arabligh price up +23% in 10MFY17) and capital intensive imports growth due to CPEC coupled with 2) falling remittances(-2.79%YoY in 10MFY17) that are expected to reach US\$19.9 by end of FY17. Resultantly, the pressure on fx reserves has persisted with levels dipping to US\$21bn from US\$23bn at end of FY16. However, moving ahead GoP expects FDI to clock in at US\$2.58bn in FY17 (growth of 12.7%YoY in 10MFY17) compared to US\$1.9bn in FY16, due to CPEC inflows offering some respite to the strained external account.

### Key Macro Metrics

	FY17F	FY16
GDP Growth (%YoY)	5.28	4.51
Agriculture Growth (%YoY)	3.46	0.27
Industrial Growth (%YoY)	5.02	5.8
Services Growth (%YoY)	5.98	5.55
Per Capita Income (US\$)	1,629	1,527
CPI Inflation *	4.3	2.9
Fiscal Deficit (% of GDP)	4.2	4.6
CA Deficit (% of GDP)	2.7	1.2
Fx Reserves (US\$ bn)	21.1	23.1
Remittances (US\$ bn) *	19.9	16.0
FDI (US\$ bn)	2.58	1.9
Public Debt (% of GDP)	59.3	61.2

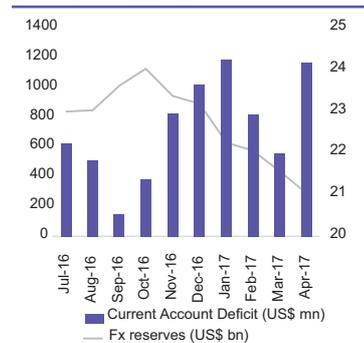
\*AKD forecast Source: SBP, Economic Survey, MoF, AKD Research

### GDP Growth (%)



Source: MoF, PBS, SBP & AKD Research

### CAD vs. Fx reserves



Source: SBP & AKD Research

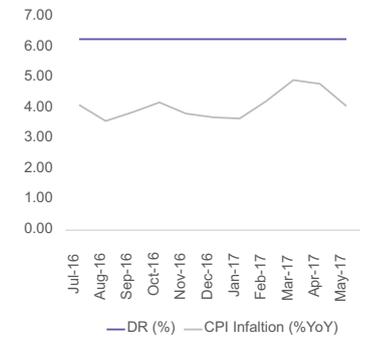


**Inflation and Monetary Position:** Headline inflation has remained well below GoP's target of 6%YoY for FY17, recorded at 4.09%YoY in 10MFY17 (AKD FY17F: 4.3%YoY vs. ), providing a favorable environment for macro-economic recovery. The limited increase in inflationary pressure can be associated with growing increase in fuel costs in line with recovery in global oil prices and uptick in foods. Besides, the contained inflationary environment also provided room for discount rates to be maintained at it historical low rate of 5.75% throughout the year, allowing growth in private sector credit (uptick of 15.8%YoY in 10MFY17 vs. 6.7%YoY avg. in FY11-16).

**Fiscal Scenario:** With GoP expected to miss its revised tax collection target of PkR3.521tn (FBR taxes of PkR2.26tn in 10MFY17), GoP is now eyeing fiscal deficit for FY17 to round off at 4.2% of GDP, up from its initial target of 3.8%. Inability of planned privatization deals to materialize also contributed to the GoP fiscal shortfall. On the positive side, PSPD releases have been on track depicting a growth of 19.8%YoY in 9MFY17 (PkR746.6bn in 9MFY17 vs PkR623.4bn in 9MFY16).

**Outlook:** Going forward, GoP is eyeing an ambitious growth target of 6% for FY18 where we expect the target to be missed with GDP growing at 5.48% in FY18 on sluggishness in LSM. While measures in Budget FY18, to be announced today, are expected to support the growth outlook, we also highlight weakness on external front as a major risk to the same, particularly in the backdrop of recovering oil prices. CAD is poised to weaken further (FY18F: 3.8% of GDP). Although, some respite in the form of CPEC related inflows, scheduled multilateral borrowing and Eurobond issue is anticipated to ease the pressure where fx reserves will likely sustain over US\$17bn in FY18.

DR vs. CPI



Source: PBS, SBP & AKD Research



## 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

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. 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 (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

#### *Rating Definitions*

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



### **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.