

PAKISTAN STRATEGY

MARKET VISTA

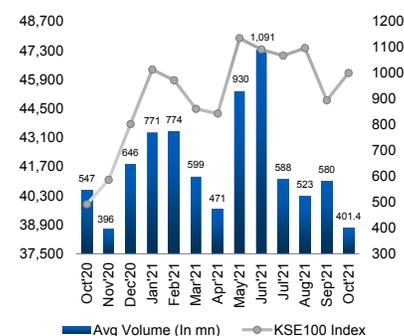
REP-019

Oct'21 market review and outlook

- KSE-100 index returned 2.9%MoM during the month of Oct'21 while the US\$ adjusted return during the month clocked in at 2.3% as PkR depreciated by 0.6%MoM against the Greenback. Resolution of civil-military relationship, announcement of Saudi support package and increasing likelihood of an agreement between IMF and authorities to revive the plan were the key triggers.
- Flow wise, Foreigners continue to exit Pakistan's traditional sectors with a net sell of US\$31mn where Commercial Banks and Fertilizers saw the highest net outflow of US\$25.3mn and US\$23.3mn respectively.
- KSE-100 index profitability grew by 21%YoY during the quarter where the key outperformers turned out to be engineering sector (profitability up by 352%YoY) and Textiles (profitability up by 163%YoY). Other honorable mentions include Autos (NPAT up by 130%) and Cements (NPAT up by 33%YoY).
- KSE-100 index has returned -2.4%FYTD, but may be primed to post a strong rally going forward. Things are finally looking up after rapid PkR depreciation halted by Saudi support package, building expectations about IMF and authorities reaching consensus regarding the revival of US\$6.2bn program and ease off in coal prices. We advocate building positions in Banks (potential DR hike), Cements (coal prices coming off and increasing cement prices), Textiles (attractive valuations) and Fertilizers (FFBL on possible reclassification in Islamic index).

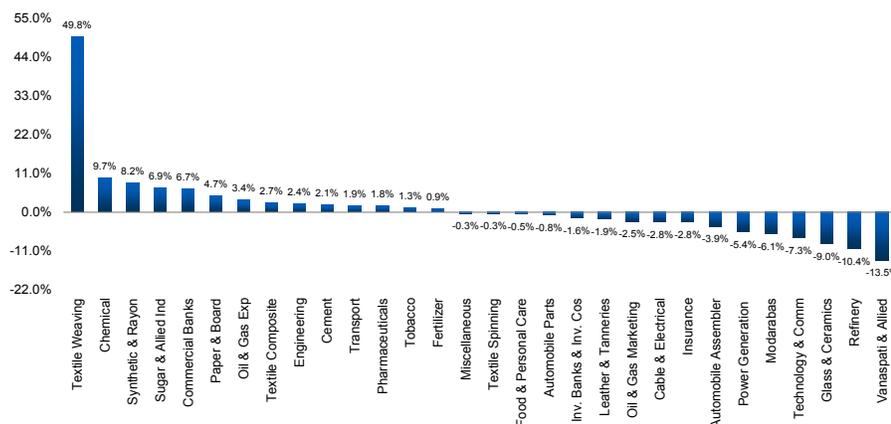
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KSE 100: Index Return vs All shares Volume



Source: PSX & AKD Research

Key Sector Performance in Oct'21



Source: PSX & AKD Research

KSE-100 index post return of 2.9%MoM during Oct'21: KSE-100 index returned 2.9%MoM on closing basis during the outgoing month to close at 46,219 level. Similarly the US\$ based return during the outgoing month clocked in at 2.3%MoM as PkR depreciated by 0.6%MoM. Things didn't start on the positive note amid concerns on civil-military relationship and noise over ongoing IMF review. Currency depreciation didn't help the matters as PkR continued to lose ground against US\$, depreciating to 175.2/US\$. However, sentiments improved after PM's visit to KSA where the political leadership of the country was able to leverage its diplomatic relationship with the Arab monarchy and KSA agreed to give Pakistan a relief package of US\$4.2bn (US\$3.0bn in cash and US\$1.2bn in deferred oil payments). The reserve injection helped stem the slide of PkR against US\$ and PkR posted a robust reversal, closing the month at 171.6/US\$. Top performing sector during the month was Textile Weaving which posted a return of ~50%,



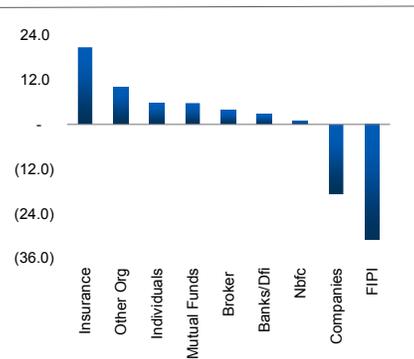
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followed by Chemicals, up 9.7%MoM and Commercial Banks which posted net return of 6.7% MoM. Foreign investors continued to remain net sellers during Oct'21 with a net sell of US\$30.9mn where the selling from foreign investors was absorbed by Insurance and Other Organizations with a net buy of US\$20.7mn and US\$10mn respectively.

PSX profitability remains robust: Profitability of KSE-100 companies posted a robust jump of 21%YoY where steels, textiles and cements were the prime outperformers. To this end, the engineering segment reported a growth in profitability of ~352%YoY (amid low base effect) as the companies benefitted from increase in international CRC-HRC spreads, textile sector's net profitability ballooned by ~163%YoY amid PKR depreciation and ~33%YoY growth in exports whereas the cements benefitted from a pick-up in demand amid increase in construction activities across the country. Other honorable mentions include Autos where profitability jumped by ~130% amid higher volumetric offtakes and E&Ps which benefitted from higher international oil prices resulting in a jump in earnings of 29%.

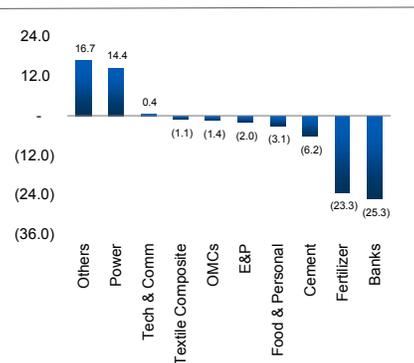
Investment Perspective: Having shed 2.4%FYTD, KSE-100 index may be primed to post a strong rebound as a host of factors turn positive. PKR, which had been in a free fall against US\$ over the last few months (shedding 13.3%FYTD against US\$) recovered 2% since the news of Saudi support package was announced. Similarly, the coal prices have come off by 7% after China pledged to stop building new coal plants and signaled its intention to ramp up coal production. Finally, there has been a growing consensus amongst market participants about revival of IMF program after negotiations between the fund and the authorities began late September. Owing to the stated factors, the investor sentiments will remain buoyant. On the flipside, one risk that may constrain market performance is a likely increase in DR where we expect 50bps jump in the upcoming MPS.

FIPI vs LIPI Oct'21 (US\$ mn)



Source: NCCPL & AKD Research

FIPI Sectorwise performance in Oct'21 (US\$ mn)



Source: NCCPL & AKD Research

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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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