

PAKISTAN STRATEGY

MARKET VISTA

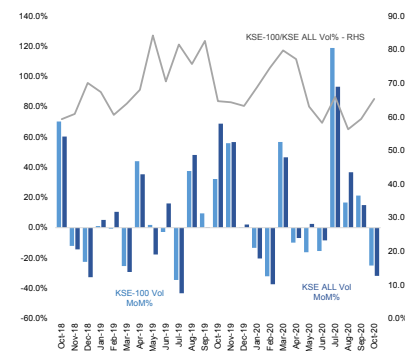
Market momentum bent not broken

- Holding out against COVID-19 resurgence, FATF plenary outcome and political noise amidst a consolidating macro backdrop, the KSE-100 index succumbed, falling 1.7%MoM, with average volumes depleting 25%MoM, and a seasonal pivot to blue-chip plays ahead of earnings season
- Isolating sectoral performance MoM we highlight the role of side-stocks and idiosyncratic sectoral catalysts in driving market performance, where further comparison on CYTD basis emphasizes the role played by these “off-board” sectors favored by retail investors, where improved risk appetite drove performance more than improved fundamentals
- Conducive policy actions to address supply chain hurdles driving food inflation, limiting gas and power tariff hikes, rehabilitating macros and supportive policy guidance reinforced by execution of tax incentives for construction sector., bolster our view of catalysts over-powering risks emanating from political or event risks
- From a fund flow perspective, individuals took gains home (US\$15.5mn net sell) followed by mutual funds (US\$6.3mn) where as Insurance (US\$26.5mn net buy) and Banks (US\$15.7mn) were buyers for the month where FPI remained net sellers (US\$39.1mn, US\$426.7mn net sell CYTD)
- We believe the Government would prefer smart/micro lockdowns, restricting non-essential activities over completely disrupting business activities in the country. Our preference tilted towards Banks (particularly top tier) as expectation of resumption in pay-outs could drive stock performance in the near term, Construction-related sectors, Power and Textiles.

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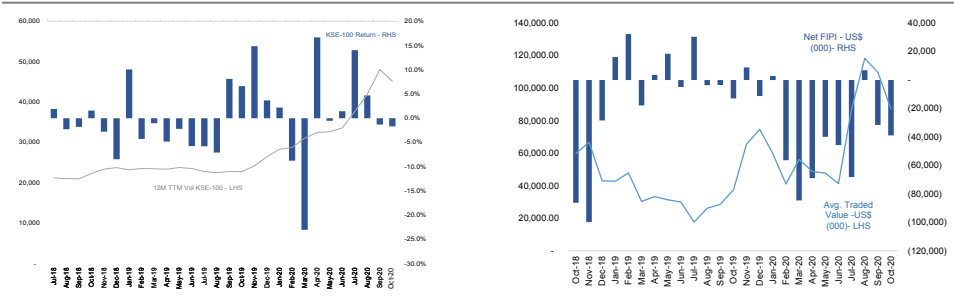
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Volumes recede as KSE-100 remains in favor



Source: PSX & AKD Research

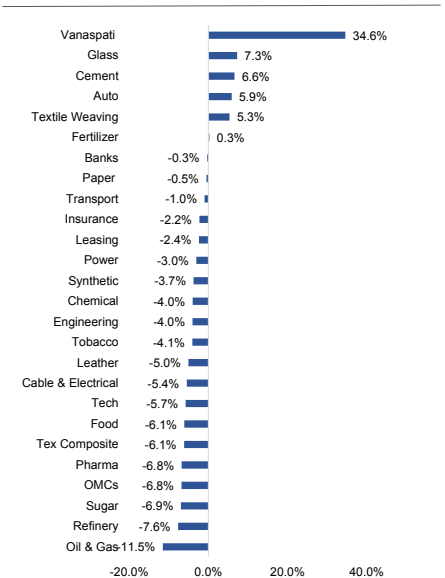
KSE-100 performance continues with foreign outflows persisting as volumes normalized



Source: NCCPL, PSX & AKD Research

Strong rally supported by cyclicals could buckle under stress: Holding out against COVID-19 resurgence, FATF plenary outcome and political noise amidst a consolidating macro backdrop, the KSE-100 index succumbed, falling 1.7%MoM, with average volumes depleting 25%MoM ending FY21's upwards momentum, and a clear investor pivot to blue-chip plays ahead of earnings season (KSE-100 vol share of KSE-All at 65%). Observing sectoral performance MoM we highlight the role of side-stocks and idiosyncratic sectoral catalysts in driving market performance, where further comparison on CYTD basis emphasizes the role played by these “off-board” sectors (Vanaspati/refinery/sugar were up 132/27/25%) favored by retail investors, where improved risk appetite drove performance more than improved fundamentals. Conducive policy actions to address supply chain hurdles driving food inflation, limiting gas and power tariff hikes, rehabilitating macros (notable, possibly structural improvements in remittances) and supportive policy guidance reinforced by execution of tax incentives for construction incentives, bolster our view of catalysts over-powering risks emanating from political or event risks. From a fund flow perspective, individuals took gains home (US\$15.5mn net sell) followed by mutual

Sector Performance in Oct'20

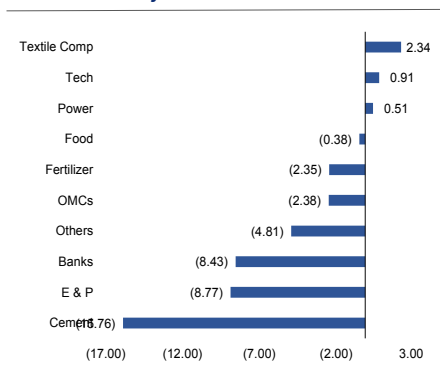


Source: PSX & AKD Research

funds (US\$6.3mn) where as Insurance (US\$26.5mn net buy) and Banks (US\$15.7mn) were buyers for the month where FPI remained net sellers (US\$39.1mn, US\$426.7mn net sell CYTD) with selling activity focused on Cements, E&Ps and Banks (constituting ~85% of sell value for the month)

Outlook: Market is likely to remain volatile in the immediate run amid uncertainty around increase in COVID cases locally (positivity ratio increased to 4% as per latest reports), and trickle-down effect of international markets witnessing pressure in the backdrop of US elections and various countries returning to lock down (such as UK). However, we believe any weakness should open up valuations which had become stretched in our view and hence be taken as an opportunity to accumulate, though in a staggered manner. We believe the Government would prefer smart/micro lockdowns, restricting non-essential activities over completely disrupting business activities in the country. Our preference tilted towards Banks (particularly top tier) as expectation of resumption in payouts could drive stock performance in the near term, Construction-related sectors, Power and Textiles.

FPI - Sector Performance in Oct'20



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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