

MPS: IMF program resumption the key takeaway

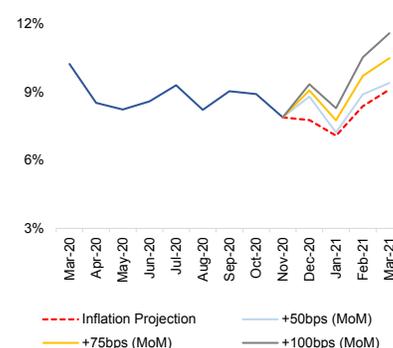
- Monetary Policy Committee (MPC) of the SBP, in its meeting yesterday, expectedly decided to keep the policy rate unchanged at 7.0%. The status quo reflected the largely unchanged inflation outlook and risks to the nascent economic recovery from the recent surge in C19 caseload both domestically and globally.
- In a subsequent analyst briefing, SBP Governor alluded towards a resumption of the program in the next few weeks, with the authorities closing the gap on the contentious issues. According to him, the authorities have reached a consensus on the scale of adjustments (both in fiscal and energy space); the timing of the same remains a key sticking point.
- With a view that the IMF will be back by end of this year, we move up our adjustments for utility rates (20%/10% for electricity and gas) to Jan'21 (vs. Mar'21 previously), which will increase our average inflation estimate to 8.9% (vs. 8.7% previously). As a result, we expect monetary tightening cycle to begin soon with first rate hike of 50bps in Mar'21 (vs. May'21 previously).
- From market's vantage, kickstart of IMF's program is a two pronged sword where initial euphoria on resumption may be tempered by possible upfront adjustments. At the same time, investors are likely to keep an eye on the unfolding Covid situation, however, with the country unlikely to enter a complete lockdown, market downside will likely remain limited.
- Expect the market to depict a strong performance from Dec'20 onwards on anticipation of Covid vaccines being ready to use (Pfizer, Moderna, Astrazeneca) by mid-Dec onwards. We continue to like selective E&Ps (Brent at US\$46.45), Banks (dividend resumption, interest rate tightening), Textiles (Exports), OMCs (potential new policy) and Autos (new models/variants).

SBP maintains status quo on interest rates: In a rather unexciting meeting yesterday, the MPC of the SBP has expectedly decided to keep the policy rate unchanged at 7.0%. The status quo reflected the largely unchanged inflation outlook and risks to the nascent economic recovery from the recent surge in C19 caseload both domestically and globally. The central bank maintained its inflation forecast range of 7-9% for FY21, with the view that the impact of potential upside risks will be offset by downside risks. The committee believes the recent surge in inflation is transitory in nature and expects the inflation to come down on account of price normalization in food prices and favorable base effect. While noting the significant improvement in domestic economic activity as evident from high-frequency data, the SBP has kept its real GDP growth forecast at slightly above 2%, accommodating for risks from the second wave of COVID-19. On the external front, the committee noted the marked improvement, with CA recording a surplus of US\$1.5bn in 4MFY21 (vs. a deficit of US\$1.4bn in SPLY). Considering positive reads so far, the committee now projects the CAD to be below 2% of GDP (vs. 2% of GDP previously), with external funding needs for FY21 being more than adequately taken care off.

Monetary outlook hinges on the resumption of the IMF program: The important takeaway for us from a rather unexciting post MPS announcement analyst meeting was an update on the resumption of the IMF program. The SBP governor has alluded towards a resumption of the program in the next few weeks, with the authorities closing the gap on the contentious issues. According to him, the authorities have reached a consensus on the scale of adjustments (both in fiscal and energy space); the timing of the same remains a key sticking point. While an early resumption of the program will certainly be a positive development for the external sector, this will have potential bearings on the monetary outlook, particularly in a scenario where the IMF necessitates front-loaded adjustments. With a view that the IMF will be back by end of this year as alluded by the SBP governor, we move up our adjustments for utility rates (20%/10% for electricity and gas) to Jan'21 (vs. Mar'21 previously), which will increase our average inflation esti-

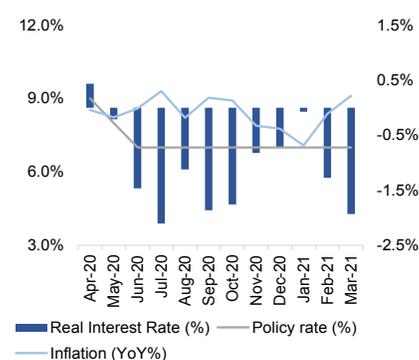
Umer Farooq
umer.farooq@akdsecurities.net
111-253-111 Ext: 603

Inflation sensitivity



Source: PBS & AKD Research

Nominal vs. Real interest rates



Source: PBS, SBP, & AKD Research



AKD Securities Limited

mate to 8.9% (vs. 8.7% previously). The same also leads us to believe that the tightening cycle may start earlier than our previous base case expectation, where we now expect the first rate hike of 50bps in Mar'21 (vs. May'21 previously). Having said that, the overall situation still remains fluid, with a recent surge in both domestic and global COVID-19 cases and consequent measures to contain the outbreak could once again weigh on the economic activity, consequently necessitating an accommodative monetary stance. The same could delay the tightening cycle through mid-2021 and beyond.

Investment Perspective: From market's vantage, kickstart of IMF's program is a two pronged sword where initial euphoria on resumption may be tempered by possible upfront adjustments. At the same time, investors are likely to keep an eye on the unfolding Covid situation, however, with the country unlikely to enter a complete lockdown, market downside will likely remain limited. Expect the market to depict a strong performance from Dec'20 onwards on anticipation of Covid vaccines being ready to use (Pfizer, Moderna, Astrazeneca) by mid-Dec onwards. We continue to like selective E&Ps (Brent at US\$46.45), Banks (dividend resumption, interest rate tightening), Textiles (Exports), OMCs (potential new policy) and Autos (new models/variants).

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 with total returns (capital upside + dividend yield) benchmarked against the expected one year forward floating (variable) risk free rate (10Yr PIB) plus risk premium.

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.

New Rating Definitions

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%)



AKD Securities Limited
602, Continental Trade Centre,
Clifton Block 8, Karachi, Pakistan.
research@akdsecurities.net