October 1, 2021

PAKISTAN
STRATEGY

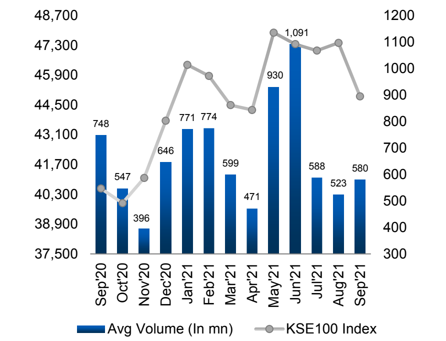
REP-019
MARKET
VISTA

Sep'21: Uncertainty kept PSX under pressure

- **KSE-100 index remained under pressure during Sep'21 on the back of i) setbacks on the foreign policy front, ii) ensuing weakness in macro indicators and iii) tightened price controls by the authorities, resulting in a decline of 5.3%MoM to close at 44,899pts - the largest monthly decline since Mar'20. With FYTD return standing at –ve 5.2%, CYTD return for the KSE-100 now stands at a paltry 2.6%.**
- **Flow wise, Foreigners continue to exit Pakistan's traditional sectors with a net sell of US$45.0mn where Commercial Banks witnessed the highest net outflow at US$41.6mn while Techs recorded an inflow of US$7.8mn.**
- **Moving forward, market direction will likely be dictated by developments on the IMF front and possible improvement in macro indicators following corrective measures taken by the authorities. While latest shift in market activity towards mainboards (KSE-100/KSE-ALL: 50.6% in the past one week vs. CYTD avg. 41.3%) signals move towards value stocks from growth stocks.**
- **We continue to advocate for building positions in thematic plays such as, Banks (particularly midcaps), Cements (despite coal price movement, players with financial strength should be preferred), Steel, Construction-Allied while currency devaluation further improves earnings outlook for Textiles. Techs should continue to be accumulated given the sector's hedge against macro tailwinds in our view.**

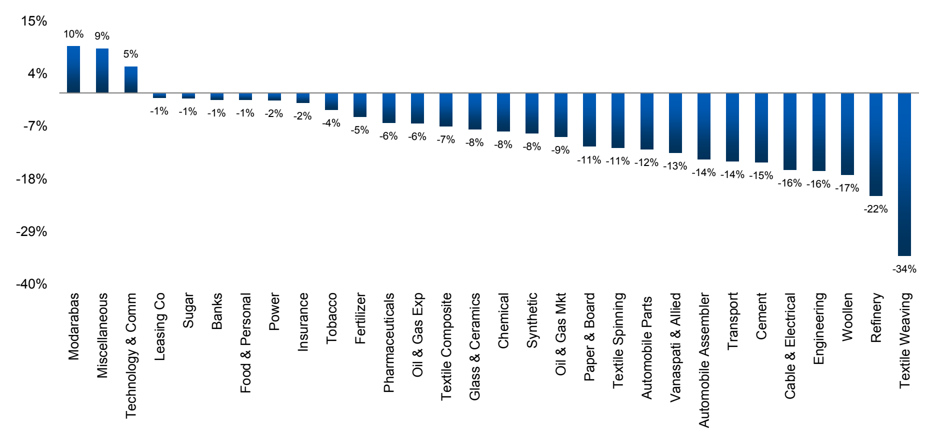
Hamza Kamal
hamza.kamal@akdsecurities.net
111-253-111 Ext: 634

KSE 100: Index Return vs All shares Volume



Source: PSX & AKD Research

Key Sector Performance in Sep'21



Source: PSX & AKD Research

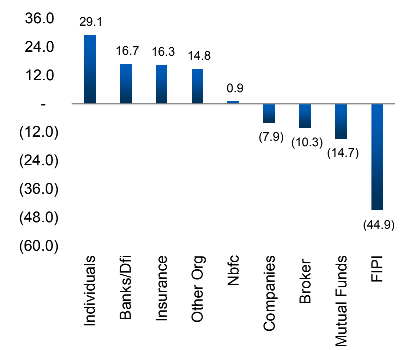
KSE-100 index eroding gains of previous 4Ms: KSE-100 index remained under pressure during Sep'21 on the back of i) setbacks on the foreign policy front, ii) ensuing weakness in macro indicators and iii) tightened price controls by the authorities, resulting in a decline of 5.3%MoM to close at 44,899pts - the largest monthly decline since Mar'20. With FYTD return standing at –ve 5.2%, CYTD return for the KSE-100 now stands at a paltry 2.6%. KSE total average volume clocked in at 580.4mn shares, lower than CYTD avg. of 696.7mn shares despite major activity being tilted towards sideboards—an indication of participants holding on to positions, expecting positive overtures on macro front in the coming periods. The pressure was felt across all sectors barring Modarabas (+9.7%MoM) and Techs (+5.5%MoM), with highest decline witnessed by Refineries (down 21.5%MoM, given the delays faced in approval of refinery policy), Engineering (down 16.3%MoM), and Cements (down 14.5%MoM).

AKD Securities Limited

Foreigners quickening their exit from traditional sectors: Flow wise, Foreigners continue to exit Pakistan's traditional sectors with a net sell of US$45.0mn where Commercial Banks witnessed the highest net outflow of US$41.6mn while Techs recorded an inflow of US$7.8mn. MSCI's decision to reclassify Pakistan into Frontier Market from Emerging Market Index also contributed in pulling the trigger. Mutual Funds also adopted cautious stance on the market with a net sell of US$14.7mn followed by Brokers (net sell: US$10.3mn). The sell-off was absorbed by Individuals with a net buy of US$29.1mn, Banks taking fresh positions of US$16.7mn (net buy), and Insurance and Others contributing the rest with a cumulative net inflow of US$31.1mn. However, in the last few weeks, Individuals have been on a selling spree with a net sell in the last 10 days totaling to US$6.8mn.

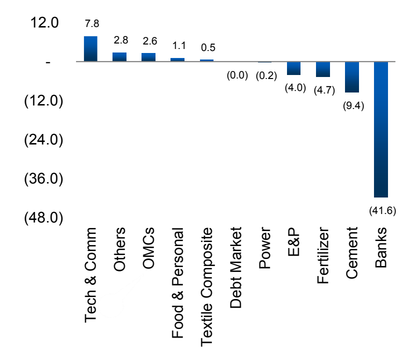
Investment Perspective: Moving forward, market direction should be dictated by developments on IMF front and possible improvement in macro indicators following corrective measures taken by the authorities. FATF, due to meet in the latter part of the month, and developments in relations with US, are likely to keep market volatile in the near term though we believe given the bi-polar global arrangements we find ourselves in, material implications are unlikely in any case. Mainboards have begun to lure investor interest lately where in the past one week, KSE/KSE-All volumes stood at 50.6% compared to CYTD avg. of 41.3%m, which we believe could have been triggered by beginning of tightening cycle and cheap valuations in the banking sector. Further, recent price hike by Cement players signals price hikes to pass-on the cost accretions within all sectors, which should improve earnings outlook and investor sentiments. Hence, we continue to advocate for building positions in thematic plays such as, Banks (particularly midcaps given MSCI-related allocations impacting big banks' performance in the near term), Cements (despite coal price movement, players with financial strength should be preferred), Steel, Construction-Allied while currency devaluation further improves earnings outlook for Textiles. Techs should continue to be accumulated given the sector's hedge against macro tailwinds in our view.

FIPI vs LIPI Sep'21 (USD mn)



Source: NCCPL & AKD Research

FIPI Sectorwise performance in Sep'21 (USD mn)



Source: NCCPL & 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

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.)

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%）**

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.

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.

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