

## Aug'21 CAD at US\$1.5bn - More than meets the eye

- As per the data released by the SBP, Current Account Deficit (CAD) for Aug'21 clocked in at US\$1.5bn vs. US\$0.8bn reported in Jul'21 – the expanding CAD explaining the recent round of currency devaluation (PkR has depreciated 4.2% since the beginning of Aug'21).
- Unwrapping trade numbers, imports surged 11.3%MoM to stand at US\$6.0bn, primarily on account of larger petroleum bill (mostly price related) and TERF related machinery imports estimated at US\$215mn whereas exports recorded meagre increase during the month (+4.4%), amid flat Textile exports (down 0.4%MoM to US\$1.3bn), which we believe is a result of delay in export proceeds.
- 2MFY22 current account deficit stood at US\$2.3bn against surplus of US\$0.8bn in the same period last year. We believe normalized trade deficit stood at US\$1.8bn in 2MFY21 inclusive of vaccine imports which are to run in the near term. Our FY22 CAD is expected at US\$11.6bn (3.6% of GDP), where funding position is expected to stand in positive US\$2.3bn for next 1-1.5 years.
- Market is expected to remain jittery in the near term with pressure on PkR/US\$ parity elevating market expectation of increase in interest rates in coming months (MPC meeting due today where AKD expects Status Quo on interest rates). However, a key barometer for bringing stability on the currency side as well as triggering stock market performance would be the successful conclusion of the IMF review.

**CAD clocked in at US\$1.5bn in Aug'21, taking 2MFY21 CAD to US\$2.3bn:** As per the data released by the Central Bank, Current Account Deficit (CAD) for Aug'21 clocked in at US\$1.5bn vs. US\$0.8bn reported in Jul'21, explaining the recent round of currency devaluation (PkR has depreciated 4.2% since the beginning of Aug'21). Trade deficit on goods widened to US\$3.6bn, +16.2%MoM, just shying away from colossal trade deficit numbers of Jun'21 (US\$3.8bn) which also included certain one offs relating to year-end purchases. Unwrapping trade numbers, imports surged 11.3%MoM to stand at US\$6.0bn, primarily on account of larger petroleum bill (mostly price related), Food categorized imports which includes wheat and sugar purchases to build strategic reserves (likely to continue in the near term where Govt. is also mulling to build pulses reserves to control prices), and other imports under economic assistance/deferred payments increasing by US\$84mn which the Govt. said to have included vaccines financed by WB/ADB. Moreover, machinery imports stood at US\$678mn (Ex. Mobiles) in Aug'21 as against US\$623mn reported in Jul'21 of which, we estimate TERF related imports to have occupied 31.7% share compared to 25.0% in Jul'21. Exports recorded meagre increase during the month (+4.4%) amid flat Textile exports (down 0.4%MoM) to US\$1.3bn which we believe is a result of delay in export remittances.

**Rising CAD unlikely to be a concern for now:** 2MFY22 current account deficit stood at US\$2.3bn against surplus of US\$0.8bn in the same period last year. We believe normalized trade deficit stood at US\$1.8bn inclusive of vaccine imports which are to run in the near term. Our expectation is based upon increasing differential between PBS and SBP's textile exports' reporting, possibly reducing BOP exports by US\$131mn, and TERF related imports estimated to amount US\$371mn. Further, we believe the extent of pressure on external account should be viewed after adjusting for imports categorized under economic assistance/deferred payments which are fully funded and is unlikely to incur drawdown in FX reserves. Hence, after adjusting for imports under this category (US\$1.2bn in 2MFY21), CAD — Adjusted is calculated at monthly avg. of US\$376mn (Gross of TERF: US\$562mn), or 2.2% of opening FX reserves, still significantly lower than 8.3/9.0% in crisis period of FY18/19. Our FY22 CAD is expected at US\$11.6bn (3.6% of GDP), where funding position is expected to stand in positive US\$2.3bn for next 1-1.5 years.

**Investment perspective:** Market is expected to remain jittery in the near term with pressure on PkR/US\$ parity elevating market expectation of increase in interest rates in coming months (MPC meeting due today where AKD expects Status Quo on interest rates). However, a key barometer for bringing stability on the currency side as well as triggering stock market performance would be the successful conclusion of the IMF review. In this backdrop, we advice accumulation on dips in thematic plays such as Techs and Textiles.

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

### CA Balance

US\$m	Aug'21	Jul'21	MoM (%)	Jan'21-Jun'21 Avg.	%Chg
CA Deficit	(1.48)	(0.81)	81.3%	(0.47)	217.4%
Exports of Goods	2.35	2.25	4.4%	2.30	2.0%
Textiles	1.35	1.36	-0.4%	1.30	4.1%
Non Value Added	0.26	0.27	-2.7%	0.26	1.6%
Value Added	1.09	1.09	0.1%	1.04	4.7%
Imports of Goods	6.01	5.40	11.3%	5.10	17.8%
Food	0.69	0.59	16.4%	0.66	4.8%
Machinery (Ex. Mobiles)	0.68	0.62	8.8%	0.59	15.3%
Out of which: TERF*	0.22	0.16	37.8%	0.14	52.1%
Petroleum	1.39	1.04	34.2%	0.91	52.9%
Oth. imports**	0.63	0.54	15.5%	0.33	90.2%
Balance on Trade in Goods	(3.66)	(3.15)	16.2%	(2.80)	30.8%
Balance on Trade in Services	(0.36)	(0.26)	34.5%	(0.15)	138.8%
Remittances	2.66	2.71	-1.8%	2.54	4.8%
CA % of GDP	-5.4%	-2.9%	-	n.a	-

Source: SBP & AKD Research

\*Est. for Jul'21 and Aug'21 based on historical extrapolation of machinery imports

\*\*Imports under economic assistance, deferred payment facilities etc.



AKD Securities Limited

## 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