

Market Strategy

Jan'21: PSX 2nd best performing market in the region

29-Jan-2021

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ASIAMONEY

Best Corporate & Investment
Bank: 2020



Top 25 Companies



CFA Society
Pakistan

Corporate Finance House of
the Year: 2020



CFA Society
Pakistan

Best Equity Research
Analyst: 2020

KSE100 added 2,630 points

Pakistan stock market emerges as 2nd best performing market in the region and 7th best performing market in the world. Historically we have seen healthy returns during the month of January and this month was no different. Infact KSE-100 returns (6.0%) have outperformed last 10-Yr average returns (4.1%) of January. The USD-based return for the month settled at 5.8%. 7MFY21 returns of the index have settled at 34.8% (USD-based: 41.4%).

The SBP announced its MPS this month, holding rates stable at 7%. For the first time ever the MPC gave forward guidance on its monetary policy, announcing that the policy rate is likely to remain stable in the near-term, while any monetary tightening when the need arises will be gradual and measured. Forward guidance provided much needed clarity to investors and to the business community and helped to evaporate any uncertainty over the interest rate outlook, which helped uplift sentiment in the local bourse. The rally during the outgoing month has primarily been led by confidence in the overall investment climate fueled by the ongoing robust economic momentum across the country. LSM showed a highly encouraging 14.5% YoY growth during Nov'20 which was at least a 12-Yr high. Moreover, remittances once again clocked in north of USD 2bn (USD 2.4bn during Dec'20) to provide crucial support to the external sector. However, the Current Account posted a deficit after 5 months of a surplus during Dec'20 (USD 662mn), taking the total surplus to USD 1,131mn during 1HFY21. On the inflationary front, the government's efforts to address supply-side issues have managed to tame down inflation, which clocked in at 7.97% during Dec'20 (Nov'20: 8.35%).

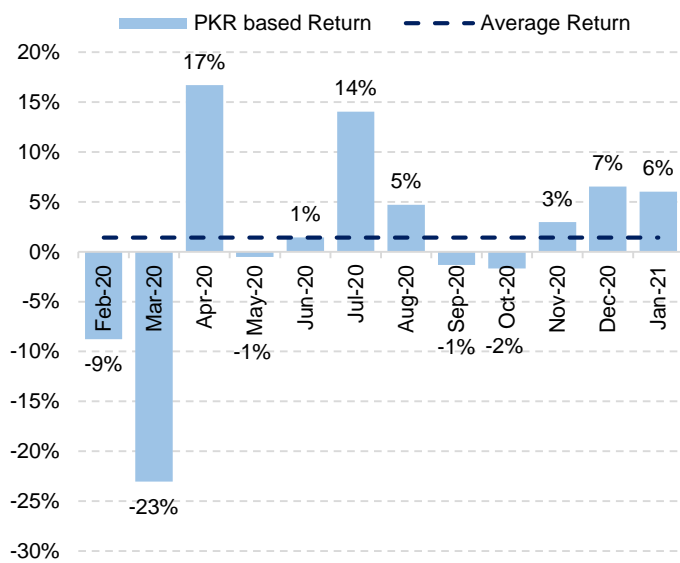
The plan for circular debt clearance was also announced this month which lured bulls in the power sector. The said plan involves the first installment (40%) to be paid in February (33% cash, 33% Sukuk and 33% floater PIBs) while the remaining is expected to be paid in 6 months with same structure. The Technology sector also saw phenomenal gains during the outgoing month on the back of re-rating of the entire sector. IT exports posted a 44% YoY jump during Dec'20 while registering a 40% YoY increase during 1HFY21.

Other reasons for the optimism during January include the diluting political noise as the PDM protests seem to be a non-existential threat to the stability of the government. Moreover, jubilant activity across cyclical sectors are likely to translate into healthy earnings during the outgoing quarter which has also kept the sentiment upbeat. On the COVID front, average daily cases have come down from 2,635 cases in Dec'20 to 2,102 cases in Jan'21 while the infection ratio is down significantly from an average 6.9% in Dec'20 to 5.3% in Jan'21

Major News

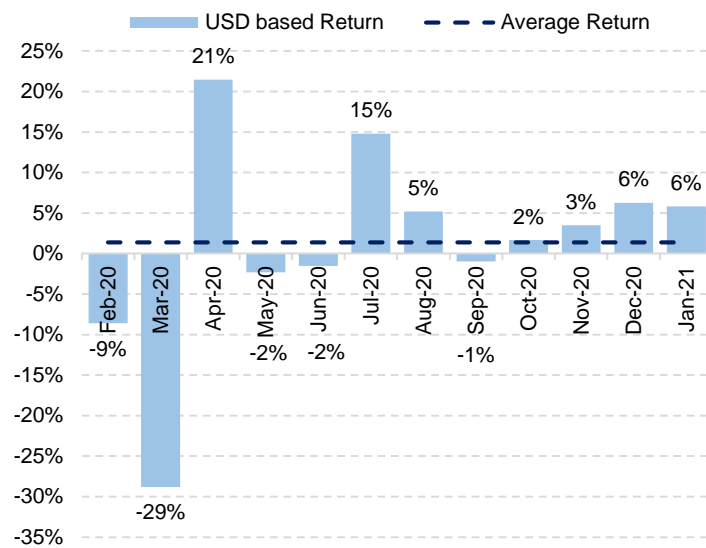
Current account turns to deficit in December, Govt jacks up power tariff by Rs1.95, Covid-19 vaccine due by early February, ECC okays additional wheat import for buffer stock, Cement sector posts 11.18pc growth in Dec, Wapda allowed to issue \$500m Eurobonds, Gas circular debt to hit Rs140 bn after winter, IMF projects Pak growth rate at 1.5pc for current fiscal year, First 5 months of FY21: Fiscal deficit stands at 1.8pc of GDP, and Pakistan gets up to 38pc lower LNG rates through revised bids.

Fig: KSE100 historical returns (PKR based)



Source (s): PSX, AHL Research

Fig: KSE100 historical returns (USD based)



Source (s): PSX, Bloomberg, AHL Research

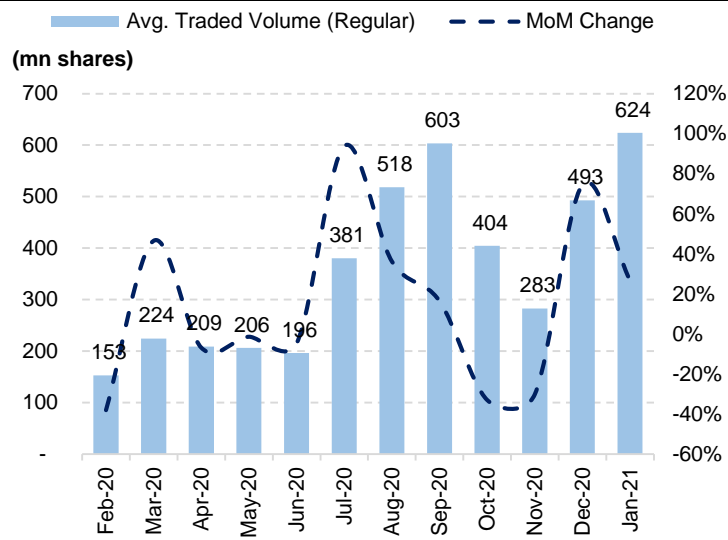
Economic Developments

- After registering a surplus for five consecutive months, Pakistan's current account balance swung to deficit in Dec'20. Current Account, in the month of Dec'20, posted a deficit of USD 662mn compared to a deficit of USD 287mn during Dec'19, marking a whopping 131% YoY increase. This monthly deficit is 18-month high, after Jun'19 (CAD: USD 981mn). Primarily attributable to a 27% YoY (USD 1,229mn) rise in total imports in Dec'20, the current account remained under pressure despite total exports and remittances being up 8% YoY (USD 220mn) and 16% YoY (USD 340mn) during Dec'20, respectively. This total import is the highest reported since Jul'18 | USD 6,445mn. With this, Pakistan's current account surplus in 1H FY21 shrank to USD 1,131mn compared with deficit of USD 2,032mn during the same period last year.
- Remittances by overseas Pakistanis registered an increase of 16% YoY to USD 2,437mn during Dec'20 compared to USD 2,097mn during Dec'19. With Dec's numbers, remittances remain above USD 2bn mark for the seven consecutive month. The country wise data reveals that inflow from KSA, UAE, USA and UK amounted to USD 625mn (+8% YoY, +2% MoM), USD 512mn (+1% YoY, -2% MoM), USD 203mn (+28% YoY, +10% MoM) and USD 327mn (+43% YoY, +14% MoM), respectively. During 1H FY21, remittances were up by 25% YoY to USD 14,203mn as the strong momentum of inflows continued to take the cumulative figure to an unprecedented level.
- Foreign direct investment (FDI) during Dec'20 witnessed net inflow USD 194mn (-61% YoY) compared to net inflow of USD 493mn during Dec'19. During 1H FY21, FDI has witnessed a decrease of 30% YoY to USD 953mn. China remained the largest investor with net FDI of USD 359mn during 1H FY21 compared with USD 396mn during same period last year. Hong Kong remained the second largest investor with net FDI of USD 86.3mn during 1H FY21 compared with USD 85.6mn during same period last year. During 1H FY21, major investment was poured in Power sector (USD 435mn) followed by Financial Business Sector (USD 146mn) and Oil & Gas Explorations Sector (USD 123mn).
- Robust momentum of economic activity continues across the country as LSM data for Nov'20 once again has posted highly encouraging numbers. Large Scale Manufacturing Industries (LSMI) output witnessed an increase of 14.5% YoY during Nov'20, while on a MoM basis, LSMI rose by 1.4%. During 5MFY21, LSMI output is up 7.4% YoY. The YoY jump during Nov'20 is led by, Food (+57.6% YoY), Autos (44.5% YoY), Non Metallic Mineral Products (+12.0% YoY), Textile (+3.1% YoY), Pharmaceuticals (+7.7% YoY), Fertilizer (+9.2% YoY), Paper & Board (+10.2% YoY), Chemicals (+11.0% YoY). Sugarcane, wheat and grain crushing has led the jump in the Food category (weight: 12%), while cheap auto financing and rising consumer spending supported by the low interest rate environment is leading the jump in the Autos sector (weight: 4.6%). Textile has shown a jump of 3% (weight: 21%) as most textile companies have reported operation at full capacity utilization and shifting of orders from Bangladesh/India.

Improvement in volumes

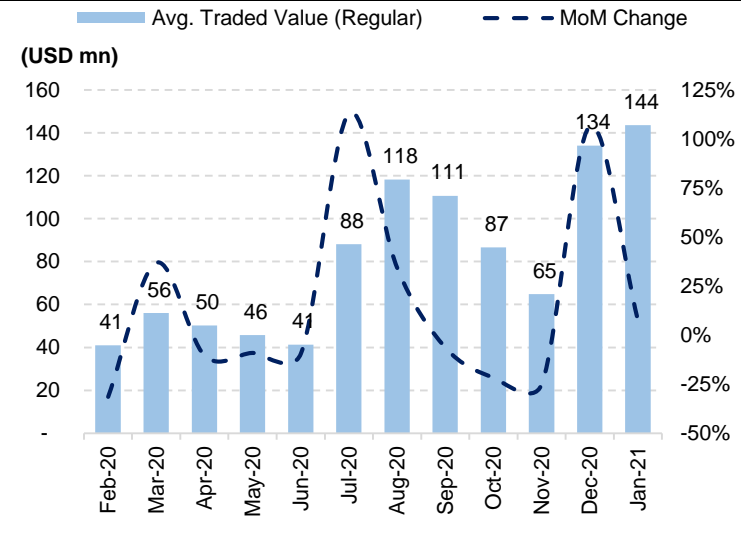
- Average volumes during Jan'21 went up by 27% to 624mn shares, average value traded also by 2% to USD 137mn.

Fig: Traded Volume Increased by 27% during Jan'21



Source (s): PSX, AHL Research

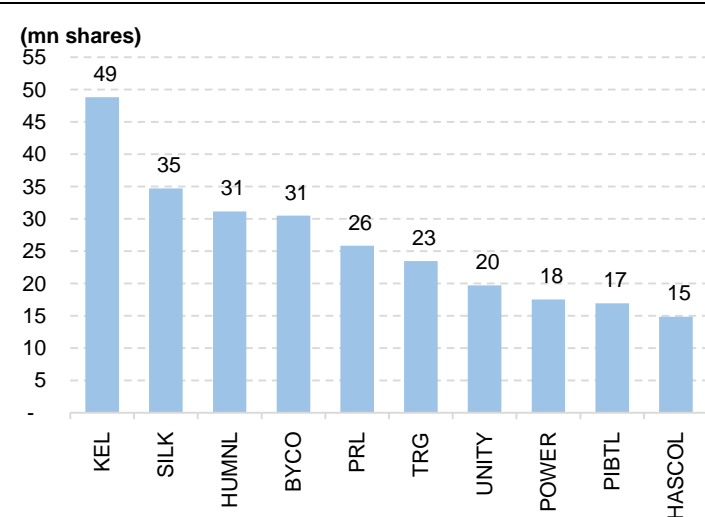
Fig: Traded Value Increased by 2% during Jan'21



Source (s): PSX, AHL Research

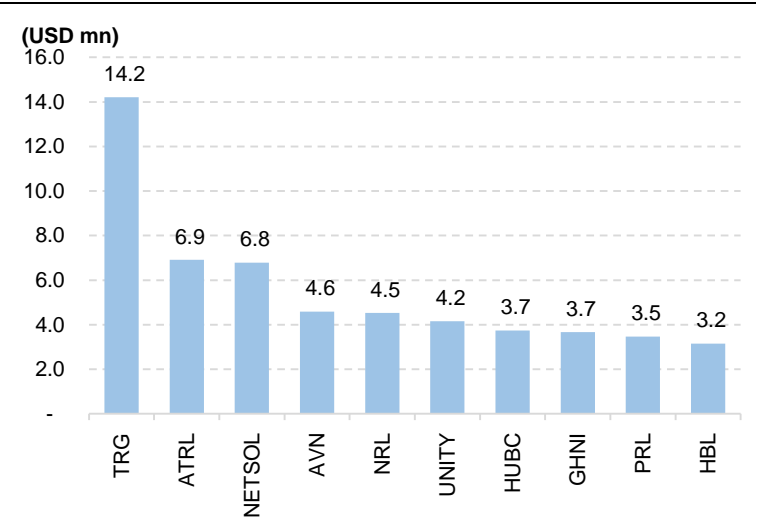
- During Jan'21, scrip-wise volumes were led by KEL (49mn shares), SILK (35mn shares) and HUMNL (31mn shares).
- Scrip-wise value was led by TRG (USD 14mn), ATRL (USD 7mn) and NETSOL (USD 7mn).
- On sector-wise basis, volumes were led by Technology (85mn shares), Banks (79mn shares) and Power (75mn shares).
- Sector-wise value was led by Technology (USD 26mn), Refinery (USD 14mn) and Cement (USD 13mn).

Fig: Scrip wise volume leaders



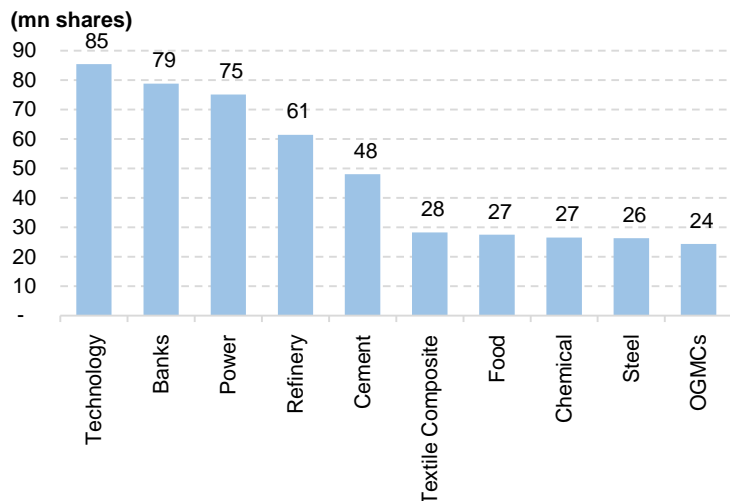
Source (s): PSX, AHL Research

Fig: Scrip wise value leaders



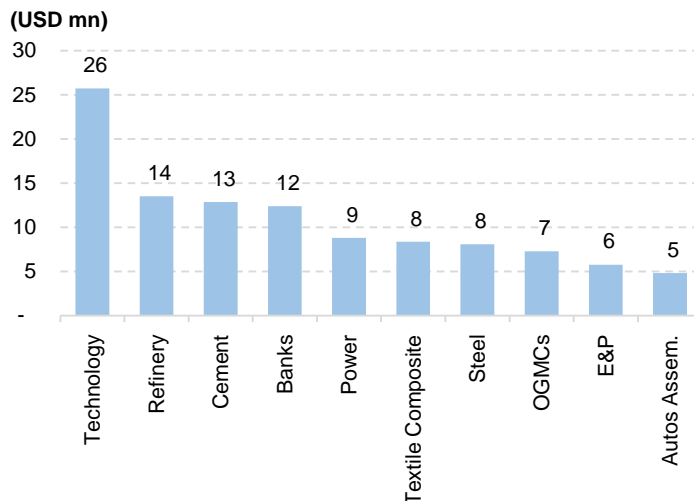
Source (s): PSX, AHL Research

Fig: Sector wise volume leaders



Source (s): PSX, AHL Research

Fig: Sector wise value leaders

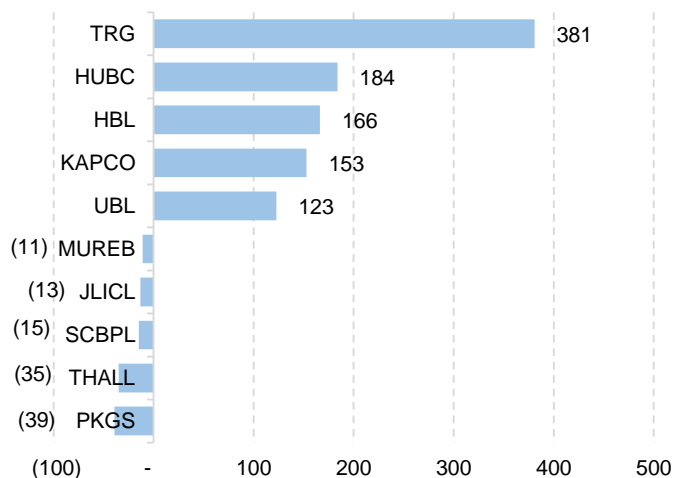


Source (s): PSX, AHL Research

Index Contribution

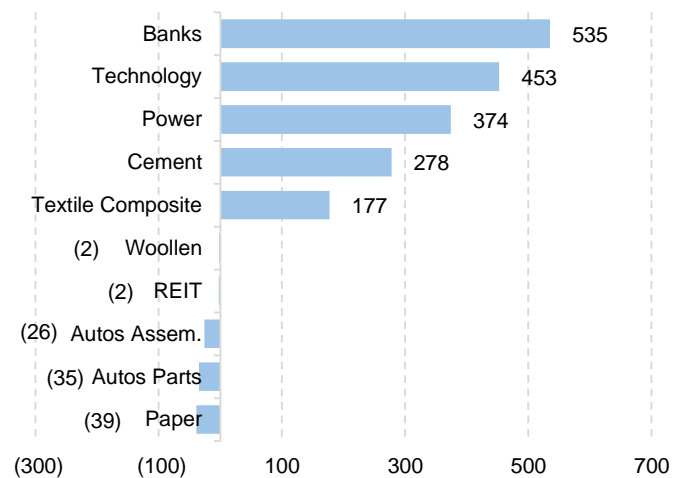
- Gainers dominating the index contributions included Banks (535pts) followed by Technology (453pts), Power (374pts), Cements (278pts), and Textile (177pts).
- Whereas, negative index contribution came from Paper(39pts), Autos Assemblers (35pts) and Auto Parts (26pts).
- Meanwhile, scrip-wise top contributions to the upside were led by TRG 381pts, 84% of total Tech sector contribution) owing to re-rating of tech scrips, HUBC (184pts, 49% of total power sector contribution) mainly due to signing of agreements, and HBL (166pts).
- Scrip-wise negative contributors were i) PKGS (-39pts) ii) THALL (-35pts) and iii) SCBPL (-15pts).

Fig: Company wise top index contributors



Source (s): PSX, AHL Research

Fig: Sector wise top index contributors

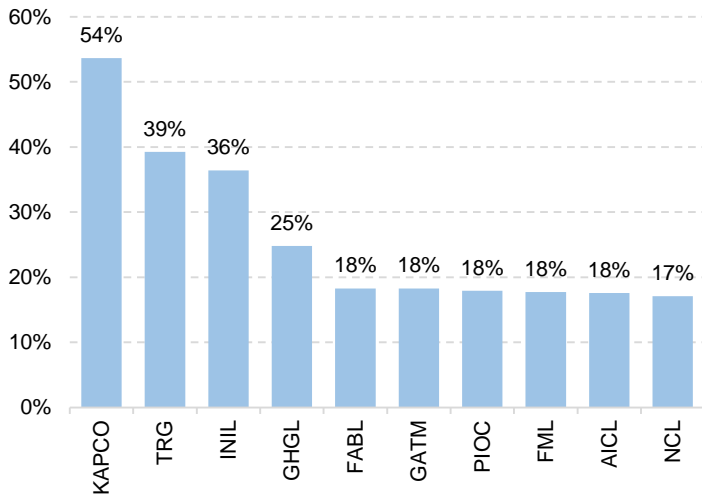


Source (s): PSX, AHL Research

Major Gainers and Losers

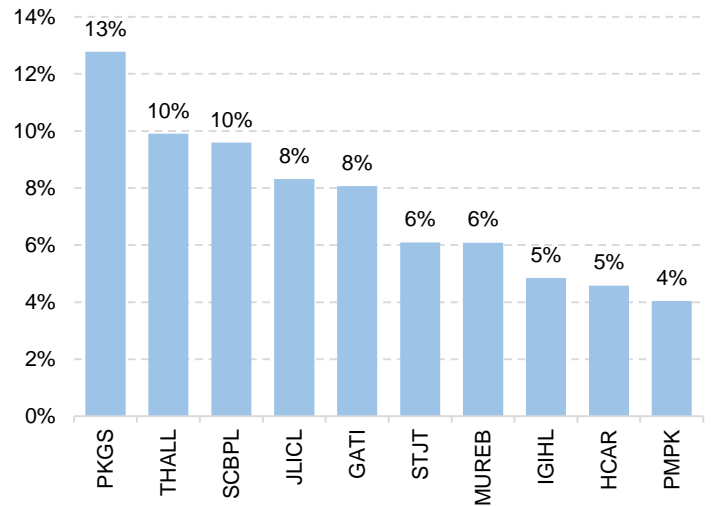
- Scrip-wise performance chart during the month was led by KAPCO, TRG, INIL and GHGL, each posting phenomenal returns of 53.7%, 39.2%, and 36.4% respectively. On the flip-side, PKGS, THALL, and SCBPL posted the most negative returns (12.8%, 9.9% and 9.6% respectively).
- In terms of sectors, Technology sector was leaps ahead of the rest, closing the month at +25.1%, followed by Glass (+24.8%) and Engineering (+18.4%). Negative returns were led by Paper (13.1%), Synthetic (8.1%) and Auto parts (7.6%).

Fig: Scrip wise major gainers (KSE100)



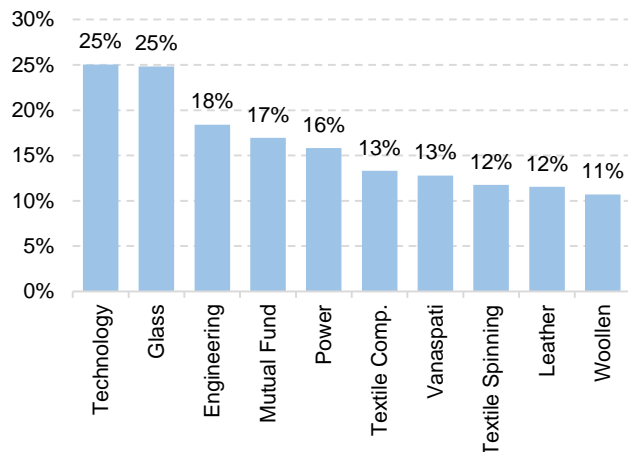
Source (s): PSX, AHL Research

Fig: Scrip wise major losers (KSE100)



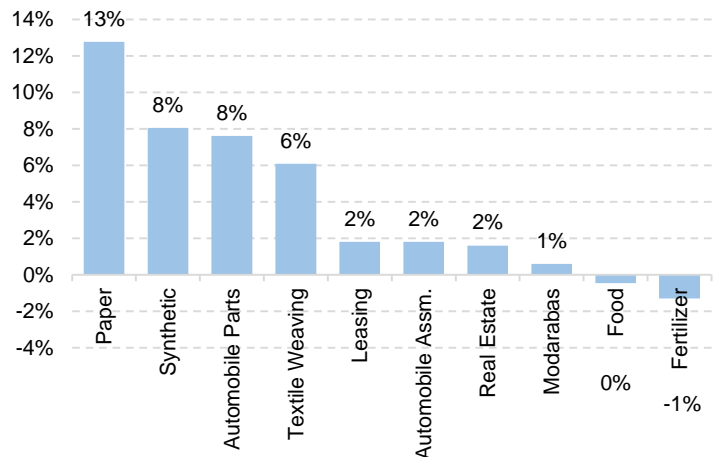
Source (s): PSX, AHL Research

Fig: Sector wise major gainers (KSE100)



Source (s): PSX, AHL Research

Fig: Sector wise major losers (KSE100)

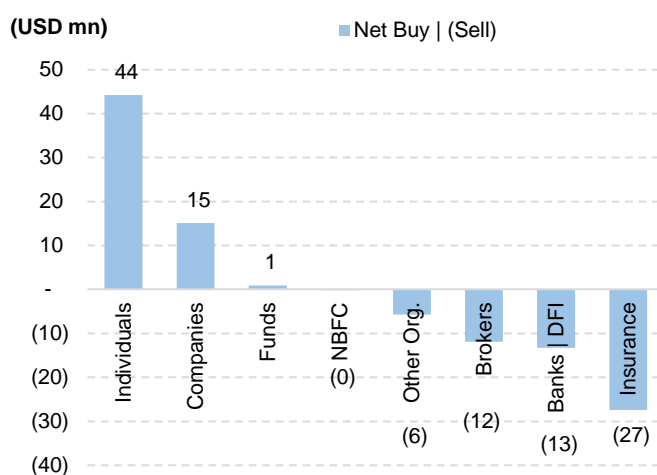


Source (s): PSX, AHL Research

Regional Portfolio Investment

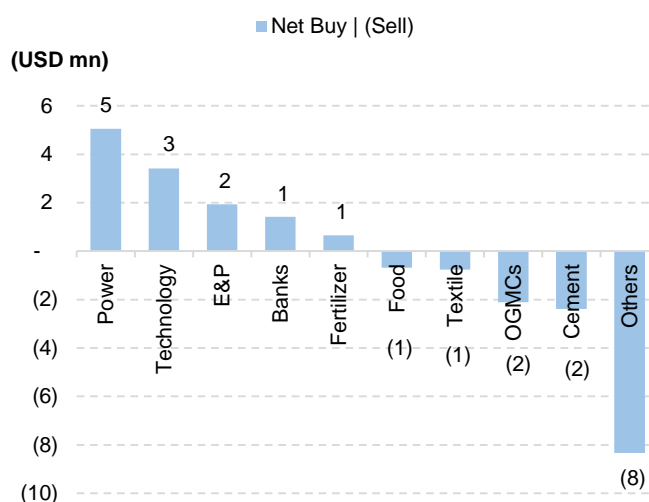
- With President Biden taking charge as POTUS and another pandemic stimulus package proposed, Asian stocks slipped as investment was pumped in the US debt market. Outflows were witnessed in the Asia-pac region during Jan'21 led by South Korea (USD 5,267mn), Taiwan (USD 3,388mn), and Thailand (USD 364mn). Albeit, massive inflows were witnessed in India (USD 2,574mn) as its digital sectors continues to grab attention of global funds. In Pakistan, foreigners also remained net seller in the month of Jan'21, selling equities worth USD 1.8mn (Dec'20 net sell: USD 96mn / Jan'21 net buy: USD 2.9mn). Outflows were observed in i) Cement (USD 2.4mn), ii) OGMCs (USD 2.1mn), iii) Textile (USD 0.8mn), and iv) Food (USD 0.7mn). Whereas inflows were witnessed in i) Power (USD 5.1mn), ii) Technology (USD 3.4mn), iii) E&P (USD 1.9mn), and iv) Banks (USD 1.4mn).

Fig: Local investors portfolio investment during Jan'21



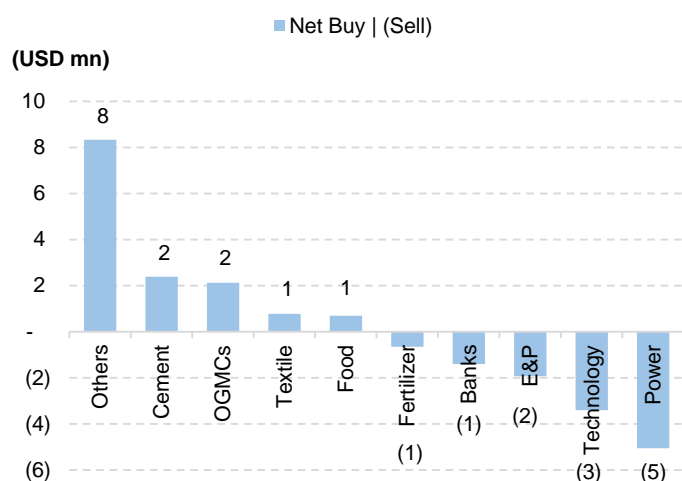
Source (s): NCCPL, AHL Research

Fig: Sector wise FIPI during Jan'21



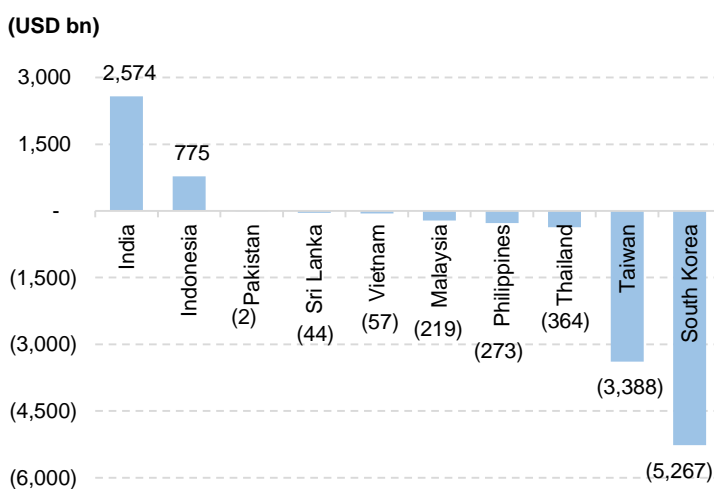
Source (s): NCCPL, AHL Research

Fig: Sector wise LIPI during Jan'21



Source (s): NCCPL, AHL Research

Fig: Regional Portfolio Investment during Jan'21



Source (s): Bloomberg, NCCPL, AHL Research

Outlook and Recommendation

We expect the rampant momentum in the local bourse to carry on. With financial conditions across the country deemed satisfactory by the SBP, and forward guidance of stable interest rates in the near term, we think equity valuations will continue to head northwards, while volumes will continue to remain high. The low interest rate regime for the next couple of months is likely to keep equities as the preferred asset class. Moreover, the decision on the country's status on the FATF grey list is expected in February and we expect Pakistan to come out of the grey list, which should further trigger optimism in the local investment climate. With the COVID situation improving gradually across the country and the vaccination drive also expected to initiate in February, that should further stimulate the investors' confidence. With the result season to continue in February, we expect healthy earnings across cyclical sectors which is likely to keep the respective scrips in the limelight.

The KSE-100 index is currently trading at a PER of 7.7x (2021) compared to Asia Pac regional average of 16.7x and offering an alluring DY of ~6.4% versus ~2.7% offered by the region. Our top picks are OGDC, HBL, MCB, KAPCO, HUBC, LUCK, DGKC, ENGRO, FFC, NML, ILP and PSO.

World Indices Performance

Table: World's Major Stock Market Performance (USD based return, Jan'21)

Sr#	Country	Index Description	Index	Return (%)	Sr#	Country	Index Description	Index	Return (%)
1	Sri Lanka	Sri Lanka Colombo All Sh	8,668	24.4	39	South Korea	Kospi Index	2,976	1.1
2	UAE	Adx General Index	5,642	11.8	40	Canada	S&P/Tsx Composite Index	17,657	1.0
3	Bulgaria	Sofix Index	498	9.9	41	USA	S&P 500 Index	3,787	0.8
4	Dubai	Dfm General Index	2,697	8.2	42	UK	Ftse 100 Index	6,458	0.5
5	Nigeria	Nigeria Stck Exc All Shr	42,415	7.1	43	New Zealand	S&P Nz All Index	2,161	0.4
6	Egypt	Egx 30 Index	11,579	7.0	44	Lebanon	Blom Stock Index	660	0.3
7	Pakistan	Kse-100 Index	46,386	5.8	45	Australia	S&P/Asx 200 Index	6,607	0.0
8	Bangladesh	Dse Broad Index	5,724	5.8	46	Colombia	Igbc General Index	13,291	-
9	Estonia	Omx Tallinn Omxt	1,436	5.6	47	USA	Dow Jones Indus. Avg	30,603	(0.0)
10	Ghana	Gse Composite Index	2,027	5.4	48	Belgium	Bel 20 Index	3,645	(0.0)
11	Hungary	Budapest Stock Exch Indx	43,690	4.7	49	Luxembourg	Luxembourg Luxx Index	1,353	(0.1)
12	Lithuania	Omx Vilnius Omxv	865	4.6	50	Oman	Msm30 Index	3,649	(0.3)
13	China	Csi 300 Index	5,352	4.3	51	Mauritius	Mauritius Stock Exchange	1,638	(0.4)
14	Romania	Bucharest Bet Index	10,345	4.1	52	Switzerland	Swiss Market Index	10,721	(0.4)
15	Kazakhstan	Kazakhstan Kase Stock Ex	2,800	4.0	53	Japan	Nikkei 225	27,663	(0.5)
16	Hong Kong	Hang Seng Index	28,284	3.9	54	Poland	Wig 20	1,973	(0.7)
17	Jordan	Amman Se General Index	1,718	3.7	55	Mexico	S&P/Bmv Ipc	44,281	(0.7)
18	Ukraine	Pfts Index	514	3.5	56	Czech Republic	Prague Stock Exch Index	1,022	(1.0)
19	Morocco	Madex Free Float Index	9,546	3.5	57	Russia	Rts Index	1,371	(1.2)
20	Sweden	Omx Stockholm 30 Index	1,967	3.3	58	Portugal	Psi 20 Index	4,868	(1.3)
21	Slovenia	Slovenian Blue Chip Idx	940	3.1	59	Europe	Euro Stoxx 50 Pr	3,525	(1.5)
22	Taiwan	Taiwan Taiex Index	15,138	3.0	60	Indonesia	Jakarta Composite Index	5,862	(1.6)
23	Austria	Austrian Traded Atx Indx	2,893	2.8	61	Bahrain	Bb All Share Index	1,457	(2.2)
24	South Africa	Ftse/Jse Africa All Shr	62,600	2.8	62	France	Cac 40 Index	5,461	(2.3)
25	Iceland	Omx Iceland All-Share Pr	1,957	2.6	63	Germany	Dax Index	13,564	(2.3)
26	USA	Nasdaq 100 Stock Indx	13,202	2.4	64	Serbia	Belex15 Index	734	(2.6)
27	Netherland	Aex-Index	644	2.4	65	India	S&P Bse Sensex Index	46,286	(2.8)
28	Turkey	Bist 100 Index	1,483	2.3	66	Italy	Ftse Mib Index	21,746	(3.4)
29	Qatar	Qe Index	10,545	2.0	67	Denmark	Omx Copenhagen 20 Index	1,432	(3.4)
30	Kenya	Nairobi All Share	157	2.0	68	Spain	Ibex 35 Index	7,842	(3.5)
31	Chile	S&P/Clx Ipsa (Clp) Tr	4,411	2.0	69	Tunisia	Tunis Se Tunindex	6,647	(3.8)
32	Singapore	Straits Times Index Sti	2,903	1.5	70	Vietnam	Ho Chi Minh Stock Index	1,057	(4.1)
33	Finland	Omx Helsinki Index	11,173	1.5	71	Malaysia	Ftse Bursa Malaysia Klsi	1,566	(4.2)
34	Thailand	Stock Exch Of Thai Index	1,467	1.4	72	Ireland	Iseqall-Share	7,089	(4.6)
35	Saudi Arabia	Tadawul All Share Index	8,807	1.4	73	Brazil	Brazil Ibovespa Index	118,883	(4.6)
36	Latvia	Omx Riga Omxr	1,165	1.3	74	Argentina	S&P Merval Tr Ars	49,630	(6.5)
37	Croatia	Croatia Zagreb Crobex	1,785	1.2	75	Greece	Athex Composite Share Pr	756	(7.1)
38	Norway	Obx Price Index	471	1.2	76	Philippines	Psei - Philippine Se Idx	6,613	(7.5)

Source (s): Bloomberg, AHL Research

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Arif Habib Ltd. (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec'21 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside of subject security(ies) is less than -10% from last closing of market price(s)

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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- Arif Habib Limited (AHL) has shareholding in AKBL, BOP, and FFC.