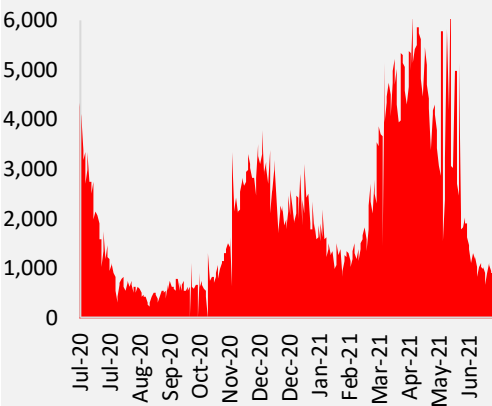


**PAKISTAN**

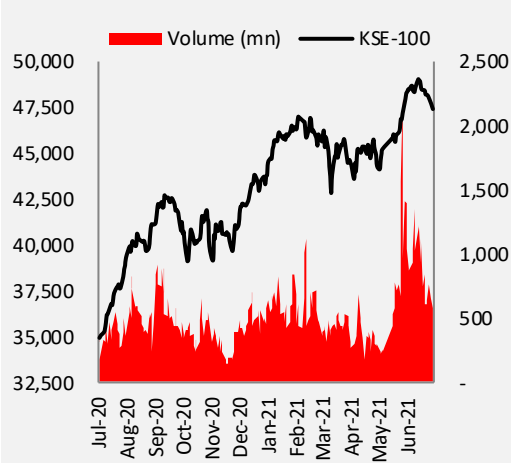


**Number of COVID cases drop sharply**



Source: GoP, Foundation Research, June 2021

**KSE-100 Index along with KSE-All volume...**



Source: PSX, Foundation Research, June 2021

**Analyst**

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Foundation Securities (Pvt) Ltd.  
Wednesday, June 30, 2021

# Pakistan Strategy

## KSE-100 posted highest return in 7 years

### Structural Reforms to set the market tone for FY22

Rising commodity prices and slowdown in growth of remittances as travelling opens up amid rising foreign liabilities would put pressure on PKR and proves to be inflationary in nature, in our view. This along with slow progress on structural reforms would make it difficult for government to continue with its accommodative policies and may force it to introduce further revenue measures and cut development expenditure to bring fiscal discipline. However, in order to comply with the IMF program, structural reforms are to be implemented in true spirit, which would help the heavy weight sectors i.e Banks, E&Ps and Fertilizer to Outperform. Subsequently, KSE-100 would continue its rally built on strong fiscal and monetary support amid easing COVID cases, in our view.

### Market Depth at high of 13 years

On the back of proactive response of both government and central bank amid declining cases of COVID-19, KSE-100 closes ~37.6% (46% in US\$ terms) up in FY21 against muted return of last year. Notably, during the fiscal year Rupee appreciated by 6.6%. The current fiscal year started by decline in policy rate to 7% and ended with the growth prone budget for FY22 has significantly improved market depth. Average Daily Turnover (ADTO) has notably improved by ~164% YoY to ~Rs19.0bn, at a high of 13 along with improvement in volumes by ~168% YoY to ~524mn shares in FY21. However, improved volumes came with a significant drop in settlement to ~53.2% in FY21, down 689bps YoY.

Besides, companies have raised highest ever amount of Rs17.1bn during FY21 through IPO with total number of new listings of 7 at PSX, which is high of 11 years.

### Performance witnessed across the board during FY21

Across the board performance, barring E&P and Tobacco, was witnessed at PSX during FY21. Technology and Cyclical sectors outperformed given fiscal and monetary stimulus for revival of economic growth. Technology, Engineering, Cement and Automobile rose the most with return of 162.5%, 138.5%, 71.7% and 51.8% YoY during FY21. Textile, Chemical, Power, OMC, Banks, FMCG and Fertilizer followed with return of 44.6%, 34.6%, 28.8%, 24.8%, 22.3%, 16.8% and 5.8% YoY. However, E&P and Tobacco were the worst hit sectors with return of -1.0% and -15.7% during FY21.

### Individuals and Companies provide exit to FIIs and Banks

Individuals and Companies provide exit to Foreigners and Banks during FY21. Individuals have bought equity stake worth of US\$332mn followed by ~US\$142mn and ~US\$35mn of Companies and Others. However, Foreigners, Banks and Brokers reduced their exposure by ~US\$395mn, US\$101mn and ~US\$33mn. Insurance too reduced their exposure by ~US\$7mn against buying of US\$128mn during FY20.

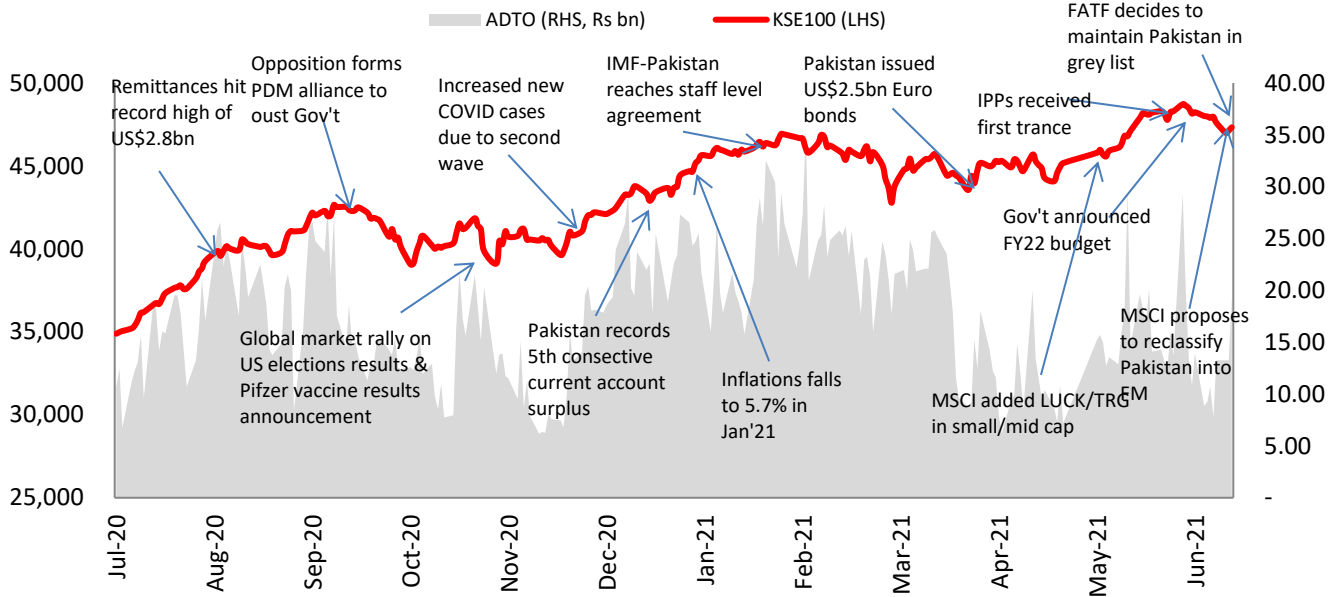
### Foreigner's to remain on selling spree

Continuation of FATF grey list along with looming threat of moving to MSCI FM markets would keep the foreigners at bay, in our view. MSCI starts consultation with market participation on the reclassification of Pakistan to FM market as no Pakistani company meets EM Size and liquidity criterion. Notably, Foreigners reduced exposure in Pakistani equities by ~US\$2.2bn during last six year.

### Prefer defensive and beneficiary of reforms

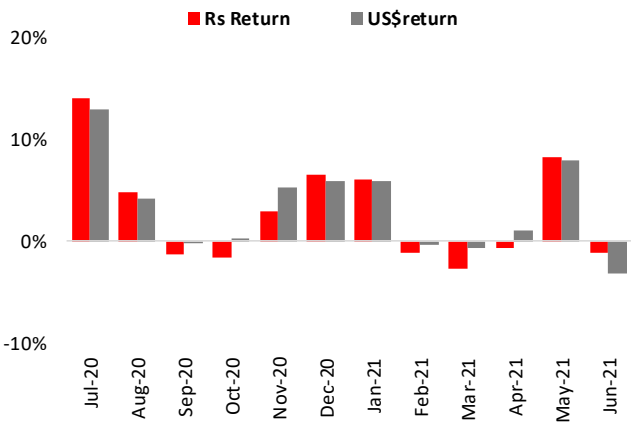
We advise to go long on sectors that are beneficiary of structural reforms, rising commodity prices and gov't growth policies. We have our liking for E&Ps, Banks, Fertilizers, OMCs and Conglomerates. We prefer OGDC, PPL, MCB, HBL, MEBL, PSO, MARI, LUCK, FFC, FFBL, ASTL, ISL and APL.

**Fig 1: Majority of the events turned in favor of KSE-100 Index during FY21**



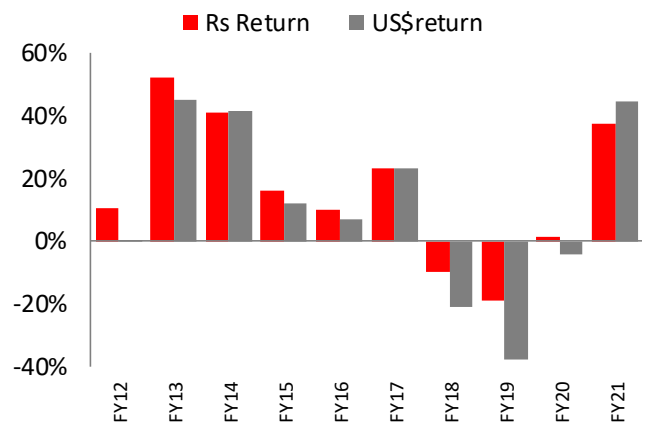
Source: PSX, Foundation Research, June 2021

**Fig 2: Despite negative return of 1.1% in June**



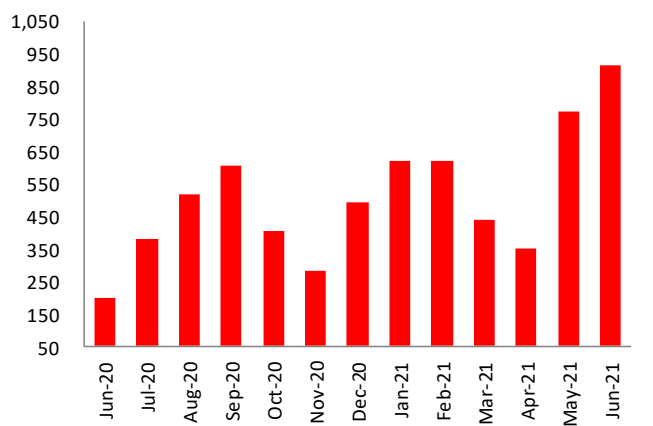
Source: PSX, Foundation Research, June 2021

**Fig 3: ...market posted return of 37.6% in FY21**



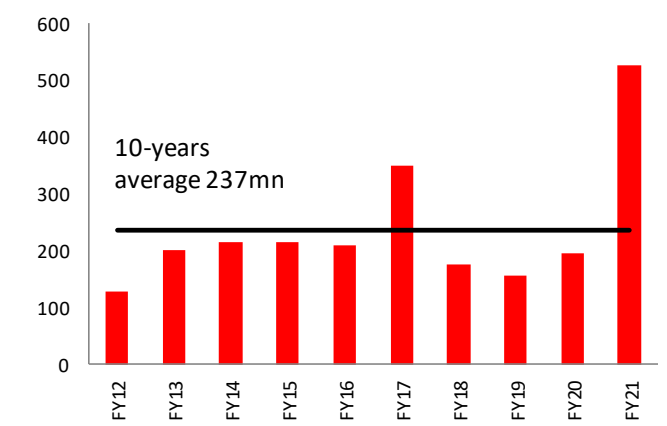
Source: PSX, Foundation Research, June 2021

**Fig 4: Historic high monthly volumes of 911.7 witnessed in Jun'21**



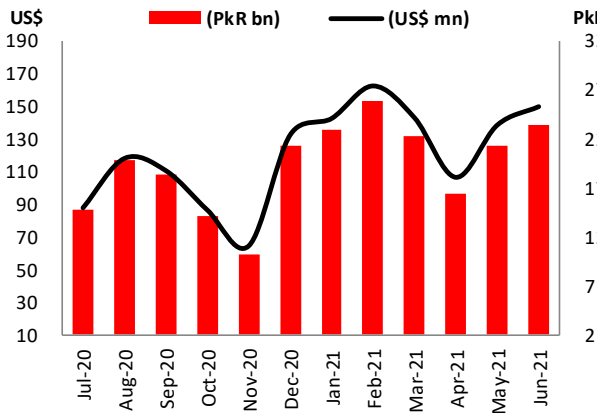
Source: NCCPL, Foundation Research, June 2021

**Fig 5: Taking overall volumes to historic high as well during FY21**



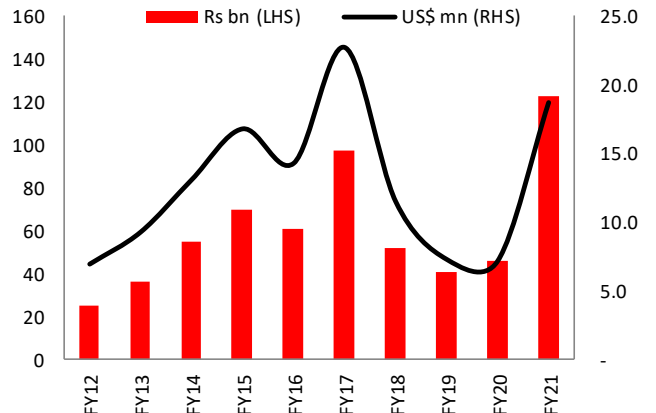
Source: NCCPL, Foundation Research, June 2021

**Fig 6 : ADTO improved by 10% on MoM to Rs23.5 bn**



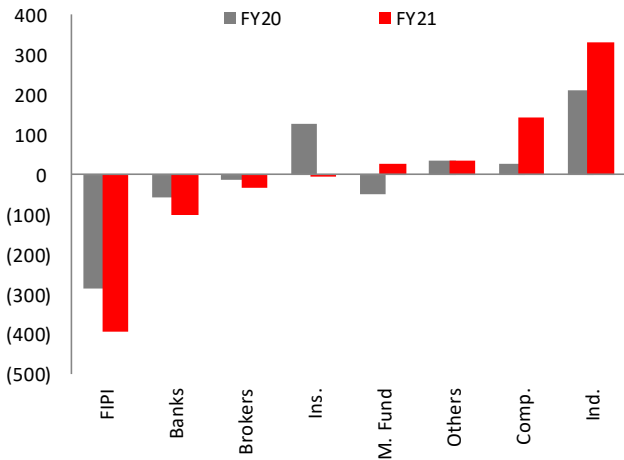
Source: NCCPL, Foundation Research, June 2021

**Fig 7 : taking overall ATDO to 13 years high**



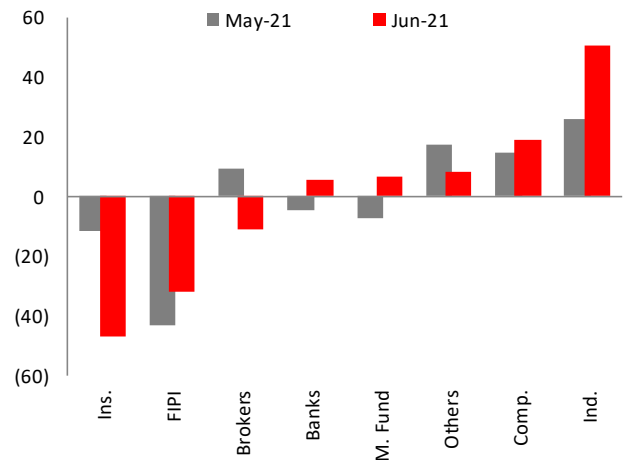
Source: NCCPL, Foundation Research, June 2021

**Fig 8 : FIIs remains on the selling for sixth consecutive year**



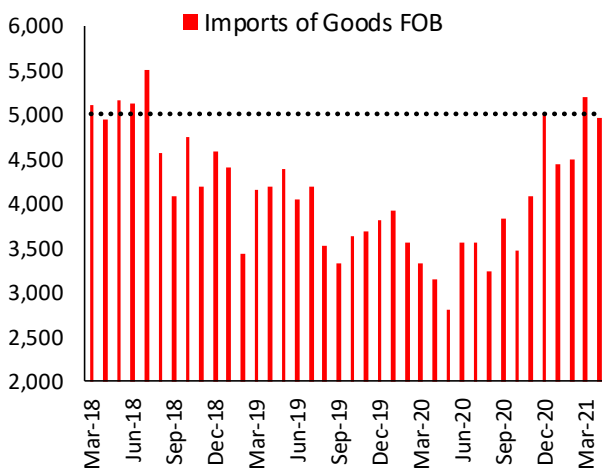
Source: NCCPL, Foundation Research, June 2021

**Fig 9 : Insurance sold the most during Jun'21**



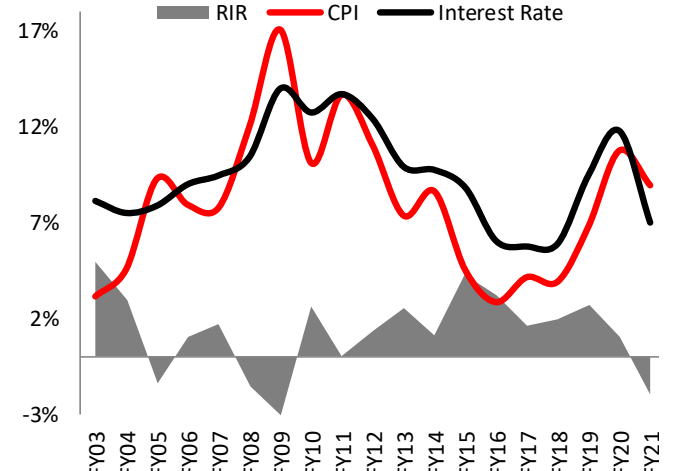
Source: NCCPL, Foundation Research, June 2021

**Fig 10 : Goods import rise to FY18 levels (US\$ mn)**



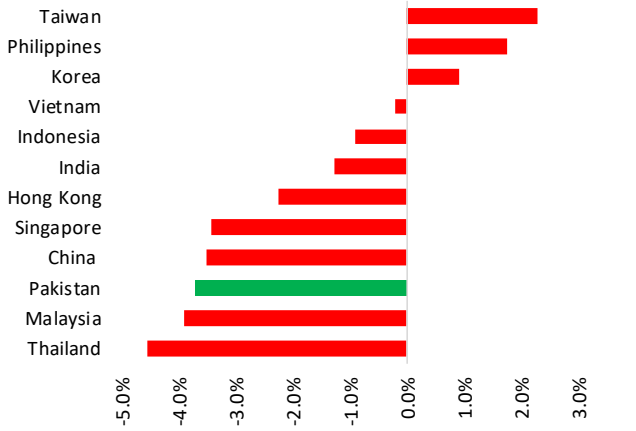
Source: NCCPL, Foundation Research, June 2021

**Fig 11 : ... as Real Interest Rates already in negative territory**



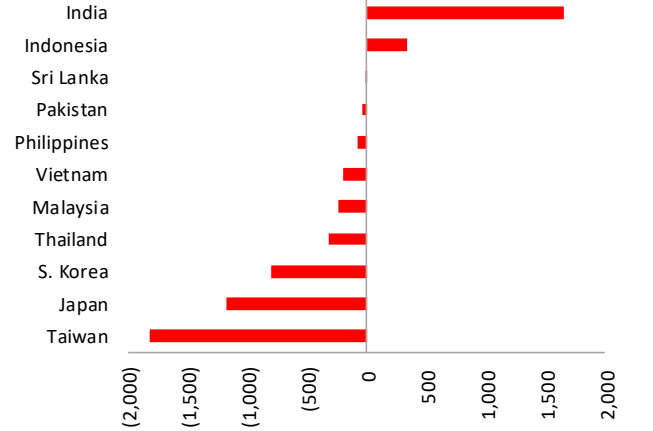
Source: NCCPL, Foundation Research, June 2021

Fig 12: KSE-100 among worst performers... (MTD %)



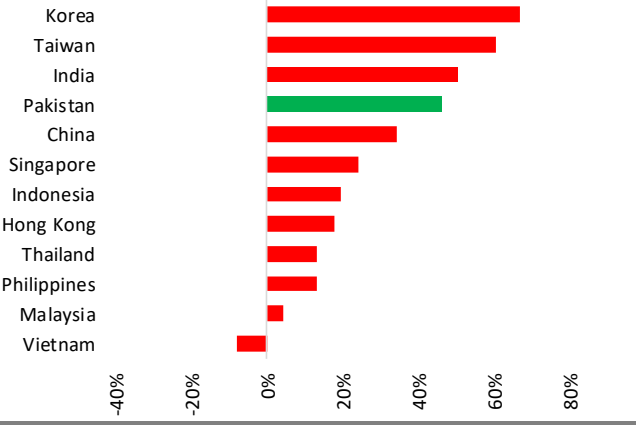
Source: Bloomberg, Foundation Research, June 2021

Fig 13: as FII trimmed their stake by US\$32 mn



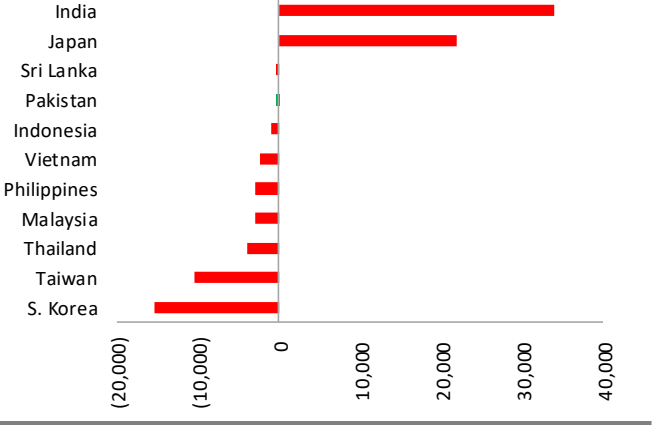
Source: Bloomberg, Foundation Research, June 2021

Fig 14: KSE-100 index ranked 4th in FY21



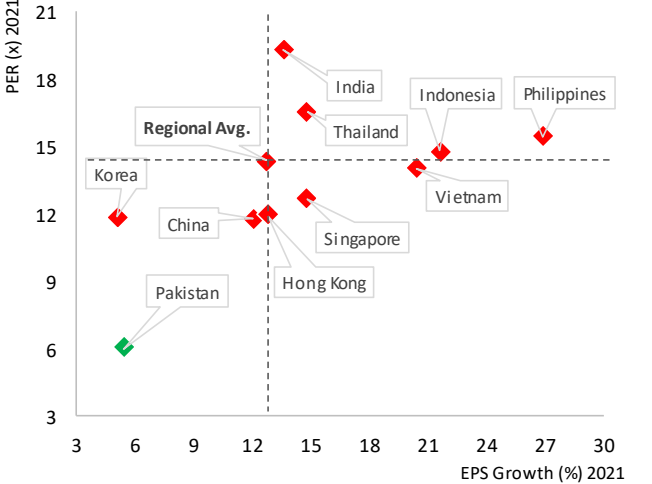
Source: Bloomberg, Foundation Research, June 2021

Fig 15: ... despite FIIs outflows



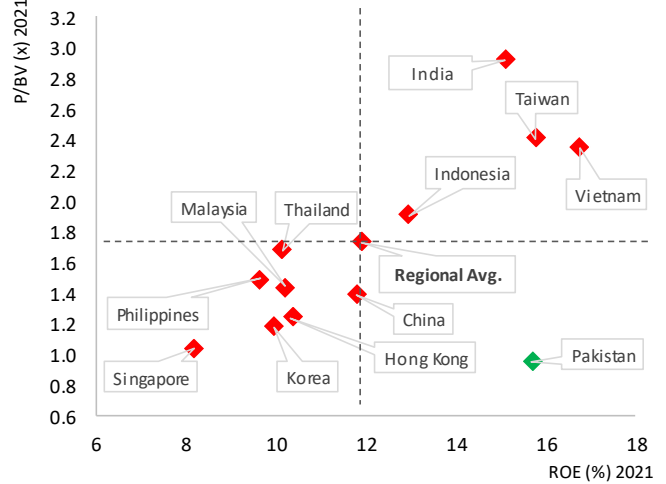
Source: Bloomberg, Foundation Research, June 2021

Fig 16: KSE 100 provides impressive growth at low PE



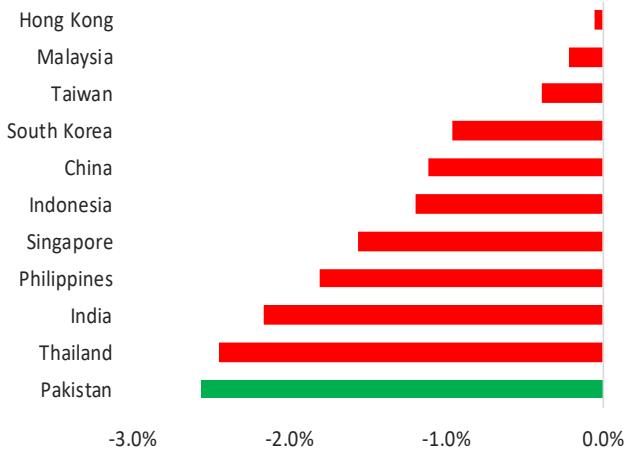
Source: Bloomberg, Foundation Research, June 2021

Fig 17: ... Cheaper on PB as well



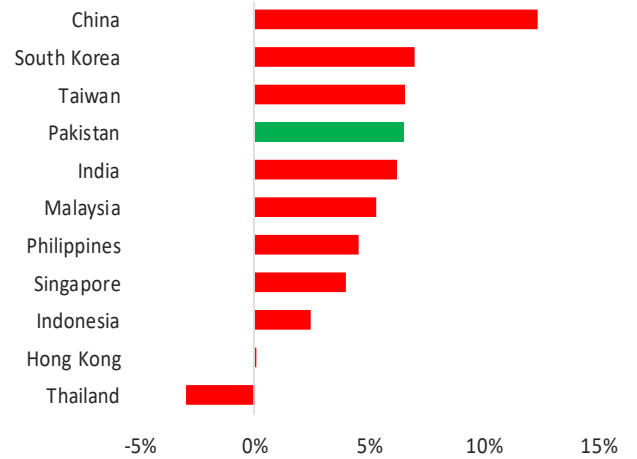
Source: Bloomberg, Foundation Research, June 2021

**Fig 18: Rupee weakens on MoM along with regional peers**



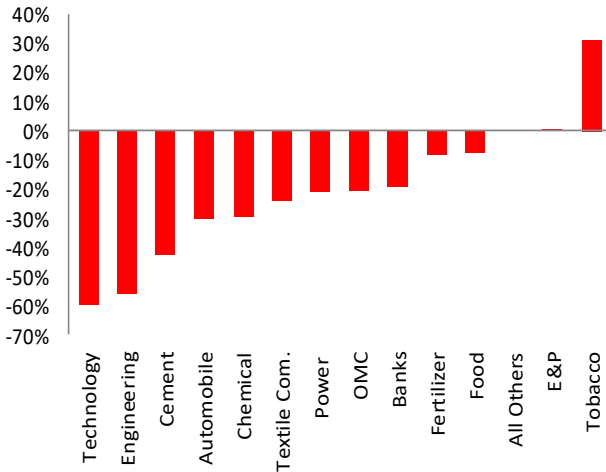
Source: Bloomberg, Foundation Research, June 2021

**Fig 19: ...PKR amongst best performing in FY21**



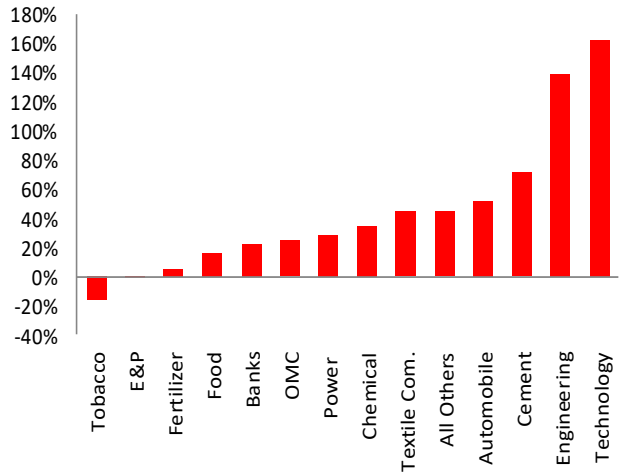
Source: Bloomberg, Foundation Research, June 2021

**Fig 20: Across the board decline during FY20**



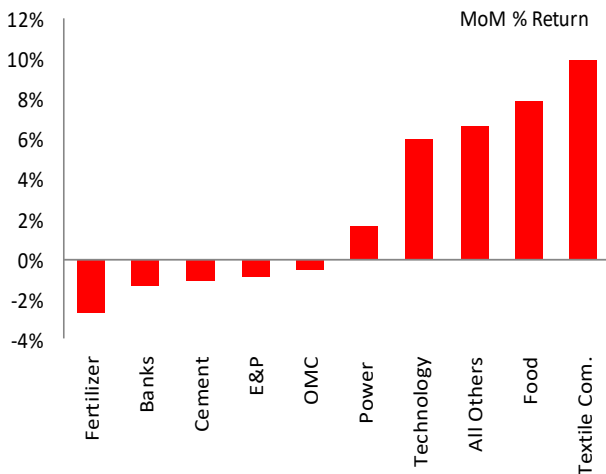
Source: PSX, Foundation Research, June 2021

**Fig 21: Across the board increase during FY21**



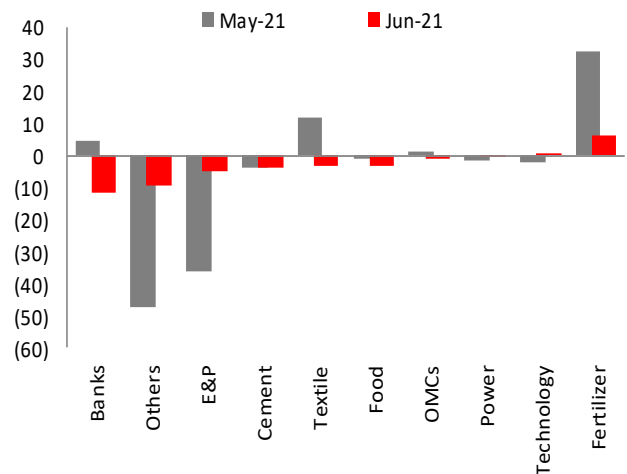
Source: PSX, Foundation Research, June 2021

**Fig 22: Textile and Food outperformed during Jun'21**



Source: PSX, Foundation Research, June 2021

**Fig 23: Despite Foreign outflow**



Source: PSX, Foundation Research, June 2021

**Table 1: Right issue in FY21**

S. #	Symbol	Securities	Issue Date	Right Issue
1	ALAC	Askari Life Ass	26-Aug-20	36%
2	HINO	Hinopak Motor	11-Sep-20	100%
3	SPEL	Synthetic Prod	18-Sep-20	5%
4	BRR	B.R.R.Guardian	2-Oct-20	10%
5	FFBL	Fauji Fert Bin	6-Oct-20	38%
6	MFFL	MithchellsFruit	26-Oct-20	191%
7	GGL	Ghani Glo Hol	27-Oct-20	66%
8	SEARL	The Searle Co.	28-Oct-20	13%
9	DKL	Drekkar KingsXR	2-Nov-20	150%
10	SHEL	Shell Pakistan	9-Dec-20	100%
11	ASC	Al-Shaheer Corp	9-Dec-20	50%
12	GLPL	Gillette Pak	17-Dec-20	66%
13	GGGL	GhaniGlobalGlass	21-Dec-20	140%
14	LOADS	Loads Limited	24-Dec-20	66%
15	GHGL	Ghani Glass Ltd	7-Jan-21	55%
16	MUGHAL	Mughal Iron	19-Feb-21	16%
17	SNAI	Sana Ind	24-Feb-21	28%
18	FLYNG	Flying Cement	10-Mar-21	114%
19	JSCL	Jah.Sidd. Co.	12-Mar-21	20%
20	WAVES	Waves Singer	19-Mar-21	50%
21	CRTM	Crescent Tex.	29-Apr-21	25%
22	DNCC	Dandot CementXR	4-Jun-21	162%
23	MACTER	Macter Int. Ltd	22-Jun-21	17%

Source: PSX, Foundation Research, Jun 2021

**Table 2: Bonus shares in FY21**

S. #	Symbol	Securities	Issue Date	% of Bonus
1	MEBL	Meezan Bank	18-Aug-20	10%
2	COLG	Colgate Palm	25-Aug-20	10%
3	CEPB	Century Paper	26-Aug-20	20%
4	DOL	Descon Oxychem	3-Sep-20	16%
5	NATF	National Foods	8-Sep-20	25%
6	SURC	Suraj Cotton	15-Sep-20	10%
7	BIFO	Biafo Ind.	22-Sep-20	10%
8	FEROZ	Ferozsons (Lab)	24-Sep-20	20%
9	SAZEW	Sazgar Eng	25-Sep-20	30%
10	OLPL	Orix Leasing	29-Sep-20	500%
11	JKSM	J.K.Spining	29-Sep-20	40%
12	FUDLM	U.D.L.Modaraba	29-Sep-20	10%
13	PREMA	At-Tahur Ltd.	30-Sep-20	10%
14	ASHT	Ashfaq Textile	5-Oct-20	10%
15	EWIC	East West Ins.	25-Nov-20	15%
16	PAKD	Pak Datacom	7-Dec-20	10%
17	GGL	Ghani Glo Hol	28-Dec-20	10%
18	MRNS	Mehran SugarXD	30-Dec-20	5%
19	NEXT	Next Capital	15-Feb-21	10%
20	TGL	Tariq Glass Ind.	18-Feb-21	25%
21	MTL	Millat Tractors	19-Feb-21	13%
22	BNL	Bunnys Limited	26-Feb-21	30%
23	PAKOXY	Pak Oxygen Ltd.	1-Mar-21	20%
24	SUTM	Sunrays Textile	1-Mar-21	200%
25	IDYM	Indus Dyeing	1-Mar-21	200%
26	BOK	Bank Of Khyber	2-Mar-21	5%
27	SYS	Systems Limited	4-Mar-21	10%
28	HINOON	Highnoon (Lab)	25-Mar-21	10%
29	RICL	Reliance Ins.	25-Mar-21	8%
30	ASIC	Asia Insurance	30-Mar-21	10%
31	SRVI	Service Ind.Ltd	31-Mar-21	100%
32	AVN	Avanceon Ltd	21-Apr-21	20%
33	GATM	Gul AhmedXB	28-Apr-21	20%

Source: PSX, Foundation Research, Jun 2021

Table 3: Trading activity summary during the month (US\$ mn)

Gross Activity	FIPI	M. Fund	Banks	Brokers	Ind.	Ins.	Comp.	Others
Buy	241.60	252.75	104.96	691.31	3,156.98	75.46	209.96	45.39
Sell	(273.47)	(245.98)	(99.29)	(702.48)	(3,106.53)	(122.32)	(191.20)	(37.14)
<b>Net</b>	<b>(31.86)</b>	<b>6.76</b>	<b>5.66</b>	<b>(11.17)</b>	<b>50.45</b>	<b>(46.86)</b>	<b>18.77</b>	<b>8.25</b>
Sector wise position								
Banks	(11.65)	(6.73)	2.23	(0.65)	(1.21)	(0.93)	7.76	11.18
E&P	(5.06)	5.08	6.10	1.23	10.74	(28.27)	7.41	2.78
Fertilizer	6.20	(3.15)	5.20	(1.78)	8.57	(13.54)	0.77	(2.27)
Power	(0.03)	(2.42)	0.05	0.30	6.33	(1.08)	(2.67)	(0.47)
Cement	(3.80)	(1.48)	(5.23)	(1.19)	9.77	0.66	(1.45)	2.71
Food	(3.26)	0.39	3.95	(1.57)	5.78	(8.11)	6.03	(3.20)
OMCs	(1.30)	2.56	(1.72)	(0.77)	3.03	0.28	(1.91)	(0.16)
Textile	(3.52)	0.46	2.51	(2.56)	4.31	(1.28)	0.25	(0.17)
Technology	0.28	2.95	(0.51)	2.00	4.27	(2.68)	(5.77)	(0.55)
Others	(9.72)	9.11	(6.92)	(6.16)	(1.14)	8.09	8.34	(1.59)
<b>Total</b>	<b>(31.86)</b>	<b>6.76</b>	<b>5.66</b>	<b>(11.17)</b>	<b>50.45</b>	<b>(46.86)</b>	<b>18.77</b>	<b>8.25</b>

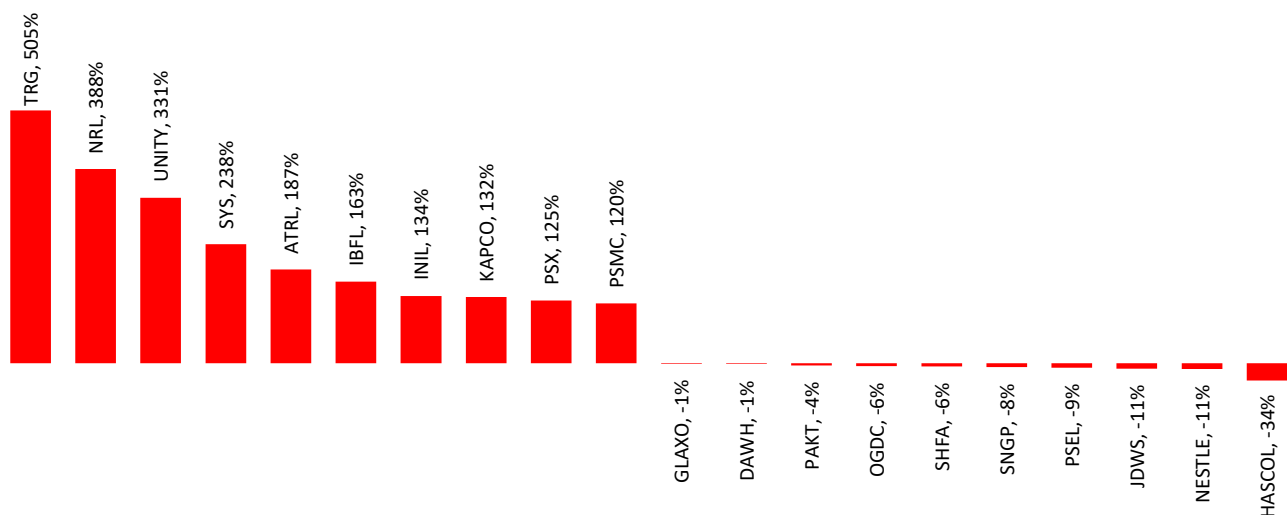
Source: NCCPL, Foundation Research, June 2021

Table 4: Trading activity summary during FY21 (US\$ mn)

Gross Activity	FIPI	M. Fund	Banks	Brokers	Ind.	Ins.	Comp.	Others
Buy	2,720.71	1,939.51	942.77	6,878.37	29,906.57	774.55	1,935.35	343.96
Sell	(3,115.95)	(1,911.69)	(1,043.77)	(6,911.61)	(29,574.51)	(781.28)	(1,793.83)	(309.15)
<b>Net</b>	<b>(395.24)</b>	<b>27.82</b>	<b>(101.00)</b>	<b>(33.24)</b>	<b>332.06</b>	<b>(6.73)</b>	<b>141.52</b>	<b>34.82</b>
Sector wise position								
Banks	(117.00)	3.58	8.94	(6.97)	71.91	(59.71)	48.16	51.10
E&P	(91.54)	(3.38)	5.18	7.02	58.97	1.19	19.03	3.54
Fertilizer	(1.71)	28.49	(10.05)	(1.62)	10.27	(7.86)	5.51	(23.03)
Power	(21.12)	(29.19)	(6.78)	(6.37)	93.98	(11.71)	(21.26)	2.46
Cement	(10.55)	(9.17)	(41.49)	2.69	44.38	4.64	2.88	6.61
Food	(14.59)	(5.17)	(4.13)	2.48	31.28	9.98	(9.88)	(9.98)
OMCs	(8.80)	(2.57)	(6.13)	6.19	20.43	2.67	(11.31)	(0.49)
Textile	6.39	(10.41)	(8.76)	(13.98)	3.52	14.60	6.34	2.29
Technology	0.66	12.73	(10.50)	0.10	8.19	(16.19)	6.70	(1.70)
Others	(136.99)	42.93	(27.28)	(22.78)	(10.88)	55.64	95.34	4.03
<b>Total</b>	<b>(395.24)</b>	<b>27.82</b>	<b>(101.00)</b>	<b>(33.24)</b>	<b>332.06</b>	<b>(6.73)</b>	<b>141.52</b>	<b>34.82</b>

Source: NCCPL, Foundation Research, June 2021

Fig 24: KSE-100 best and worst performer stocks during FY21



Source: PSX, Foundation Research, June 2021

**Abbreviations**

ADTO	Avg. Daily Turnover volume
Bn	Billion
CY	Calendar Year
EU	European Union
FII	Foreign Institutional Investors
FED	US Federal Reserves
GDPg	Gross domestic product growth
ITFC	International Islamic Trade Finance Corporation
MoM	Month on Month
Mn	million
KSE100	Karachi Stock Exchange 100
PSX	Pakistan Stock Exchange
PE	Price to Earnings
PBV	Price to Book
ROE	Return on Equity
DY	Dividend Yield
NT	Near Term
YoY	Year on Year
YTD	Year to Date
UW	Under weight
OW	Over weight
MW	Market weight



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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.