

Foundation Alert

Governor SBP meeting takeaways

Event

- Governor of State Bank of Pakistan (SBP) held a meeting with the investment community today to discuss the Monetary Policy Statement. The Governor also shed light on events that resulted in MPC to go for interest rate hike. Following are the key takeaways of the briefing.

Impact

- Monetary Policy Committee (MPC) in its meeting held on Sep 20'2021 decided to increase the policy rate by 25bps to 7.25% given more than expected demand growth and economic recovery less vulnerable to COVID due to measures taken by the government such as aggressive vaccination drive since the last MPC.
- Governor SBP says now the focus will be on protecting the longevity of growth along with keeping the Current Account Deficit in manageable range.
- Regarding Current Account Deficit assumption for FY22, he said SBP's CAD forecast is slightly elevated but remain within the earlier forecast of 2-3% of GDP. It is too soon to revise CAD assumption as results of exchange rate is yet to be seen.
- Governor SBP said that MPC felt that exchange rate is not the only tool to protect economy so policy rate has been raised accordingly.
- Discussion with IMF are underway to resume the program and will actively starts by the end of this month. Since its start, we are in close dialogue with IMF program at technical level. Number of adjustments as per requirement of IMF program has already been done given the nature of the program. Difference with IMF is on the implementation of Fiscal measures and energy sector reforms. The good thing is Pakistan's Debt to GDP has reduced since the start of the COVID along with significant increase foreign reserves which is the main underlying concern of IMF program.
- Situation in Afghanistan is evolving so it's premature to say how things will evolve over time. The first thing is to look for foreign exchange for which SBP is monitoring cash markets especially money exchanges in the border area with the help of FBR. Second impact is expected to be of fiscal in nature given Pakistan resources to be used in Afghanistan to provide support and at last the broader challenge is of law and order situation.
- In the past each episode of growth comes with the stable exchange rate but this time around free float exchange rate would help to achieve sustainable growth rate.
- SBP expects trend in Remittances to continue on the back of increase in number of people sending funds to Pakistan and existing users sending more funds to Pakistan.
- For placement of external debt Sukuk instruments and attracting flows from ESG investors could be tapped.
- Amount received in the form of SDR could be used for import of vaccines or meeting fiscal requirements.
- Faster recovery in economic activity is now expected to result in a positive Output Gap by the end of FY22.

Outlook

- SBP would act gradually towards achieving mildly positive real interest rates amid continuation of economic growth, in our view.
- The impact of increase in policy rate by 25bps is minimal on company's profitability, and our valuation remained unchanged as we have already incorporated RFR of 11.5% and policy rate of 9% by the end of FY22.

Table 1: Impact of 25bps on company's profitability

Company/Sector	Total Debt	Cash & ST investment	Impact	Comment
E&P			Positive	
OGDC	-	190,211	0.07	Strong cash position to yields positive results
POL	-	47,572	0.27	Strong cash position to yields positive results
PPL	-	44,035	0.03	Strong cash position to yields positive results
MARI	-	58,432	0.71	Strong cash position to yields positive results
Banks			Positive	
HBL	-	-	0.80	Uptick in interest rates to increase NII
UBL	-	-	0.85	Uptick in interest rates to increase NII
MCB	-	-	0.61	Uptick in interest rates to increase NII
MEBL	-	-	0.50	Uptick in interest rates to increase NII
BAFL	-	-	0.89	Uptick in interest rates to increase NII
AKBL	-	-	0.37	Uptick in interest rates to increase NII
FABL	-	-	0.30	Uptick in interest rates to increase NII
Fertilizer			Neutral	
ENGRO	59,731	108,462	0.14	Excludes debt of power companies
FATIMA	19,360	2,862	(0.01)	Profitability to further reduce in case of concessionary GIDC payment
FFBL	56,158	20,657	(0.04)	Debt adjusted for FFBL Power Supply to KEL
FFC	52,348	83,790	0.04	Strong cash position to yields positive results
EFERT	20,706	16,392	(0.01)	Increased working WCC to hurt trading business profitability
Steel			Negative	
ISL	12,008	293	(0.04)	Working capital cost to increase
ASTL	17,475	146	(0.09)	Working capital cost to increase
ASL	12,002	161	(0.03)	Working capital cost to increase
MUGHAL	23,309	4,184	(0.11)	Working capital cost to increase
INIL	13,143	73	(0.16)	Working capital cost to increase
Cements			Negative	
LUCK	27,417	39,664	0.06	Higher cash availability and concessionary borrowing to provide hedge
KOHC	6,051	4,197	(0.01)	New expansion to further hurt profitability due to higher interest rates
BWCL	14,711	3,801	(0.03)	New expansion to further hurt profitability due to higher interest rates
ACPL	5,795	1,267	(0.05)	New expansion to further hurt profitability due to higher interest rates
FCCL	1,196	3,833	0.00	Higher cash availability and concessionary borrowing to provide hedge
POWER	27,398	345	(0.04)	Negative impact due to higher leverage
MLCF	16,235	639	(0.02)	Negative impact due to higher leverage
DGKC	46,998	2,943	(0.16)	Negative impact due to higher leverage
DCL	5,788	131	(0.02)	Negative impact due to higher leverage
PIOC	27,139	1,449	(0.18)	Negative impact due to higher leverage
CHCC	17,668	1,909	(0.13)	Negative impact due to higher leverage
Refinery			Negative	
ATRL	11,035	12,051	0.02	Would increase finance cost due to high leverage
NRL	18,745	748	(0.37)	Would increase finance cost due to high leverage
PRL	15,171	43	(0.04)	Would increase finance cost due to high leverage
BYCO	37,026	1,363	(0.01)	Would increase finance cost due to high leverage
Autos			Positive	
HCAR	2,447	25,089	0.26	Earnings to increase due to strong cash position
PSMC	1,260	7,465	0.12	Earnings to increase due to strong cash position
MTL	346	3,130	0.08	Earnings to increase due to strong cash position
INDU	963	84,092	1.72	Earnings to increase due to strong cash position

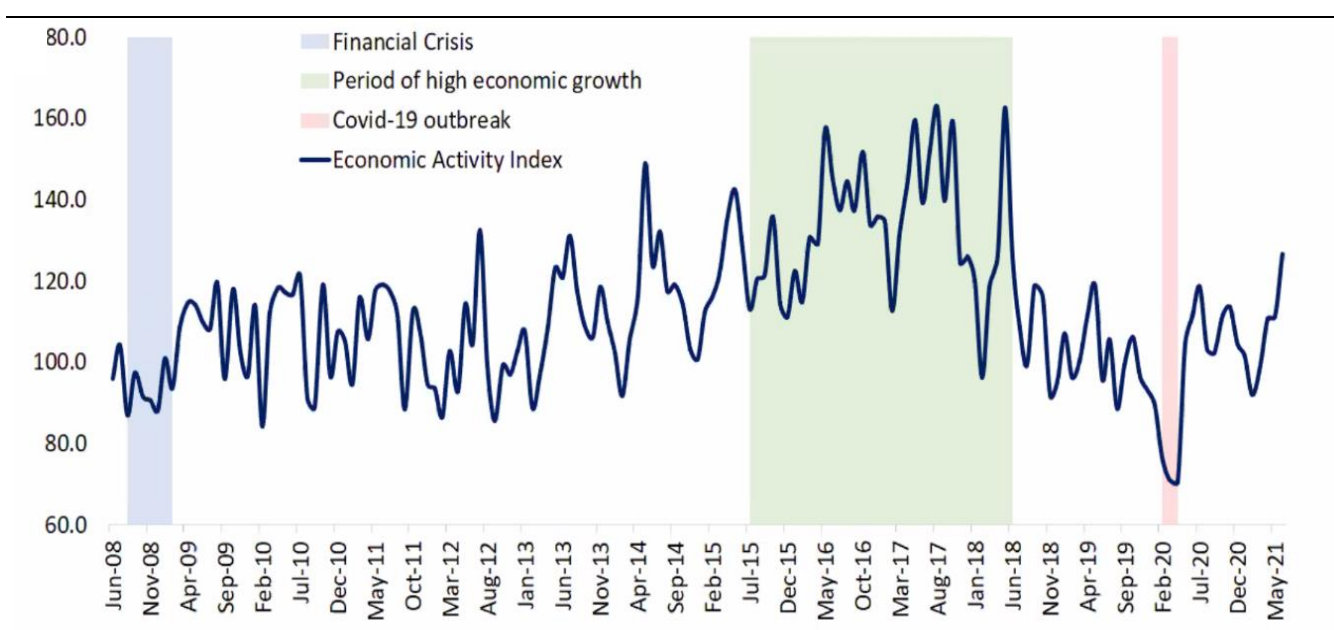
Source: Company Accounts, Foundation Research, September 2021

Impact of 25bps on company's profitability

Company/Sector	Total Debt	Cash & ST investment	Impact	Comment
OMCs			Negative	
APL	6,882	11,391	0.07	Net positive impact due to higher cash position
PSO	101,542	2,564	(0.34)	Would increase finance cost due to high leverage
SHEL	5,626	3,581	(0.02)	Working capital cost to increase
HASCOL	51,836	2,163	(0.08)	Would increase finance cost due to high leverage
Chemical			Neutral	
EPCL	26,189	1,286	(0.04)	Would increase finance cost due to high leverage
LOTCHEM	1,657	17,627	0.02	Earnings to increase due to strong cash position
FMCG			Negative	
FCEPL	7,751	346	(0.02)	Working capital cost to increase
MFL	6,861	159	(0.09)	Working capital cost to increase
FFL	14,092	249	(0.03)	Working capital cost to increase
Textile			Neutral	
NML	28,591	99	(0.13)	Contingent upon revision in ERF
Cable & Electrical Goods			Negative	
PAEL	19,465	574	(0.06)	Working capital cost to increase
WAVES	6,448	294	(0.04)	Working capital cost to increase
Technology			Positive	
SYS	2,621	6,332	0.04	Earnings to increase due to strong cash position

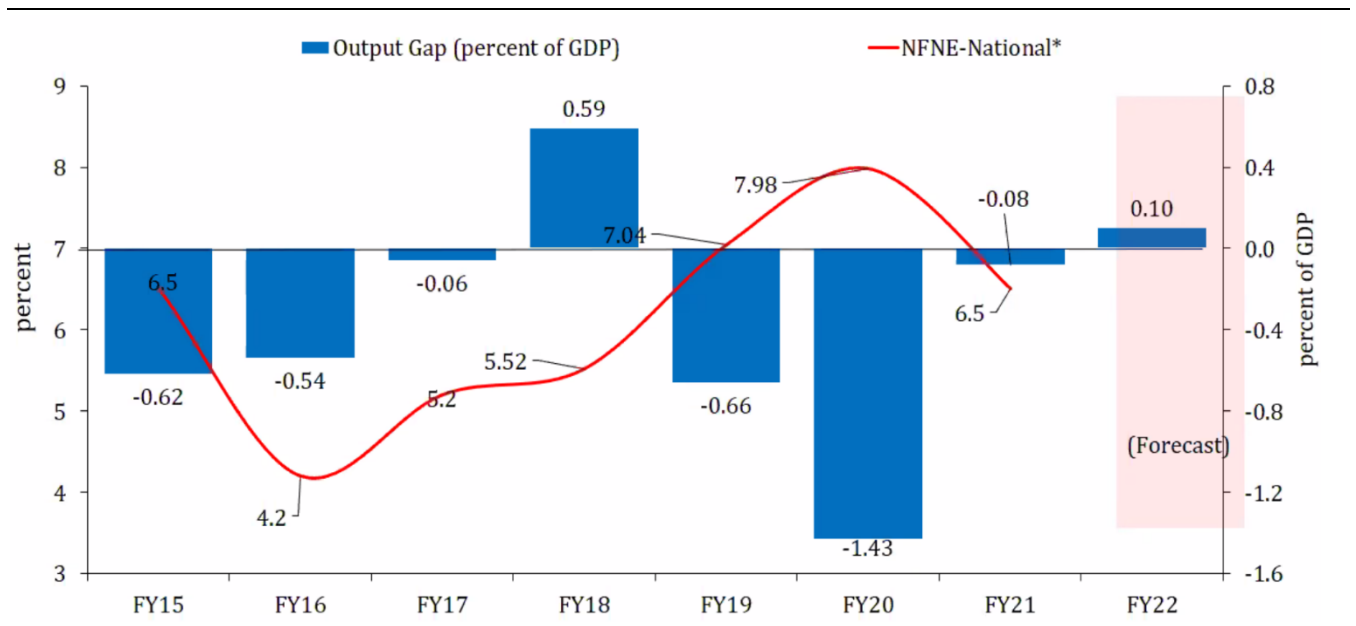
Source: Company Accounts, Foundation Research, September 2021

Fig 1: SBP's Composite Index confirms buoyant economic activity



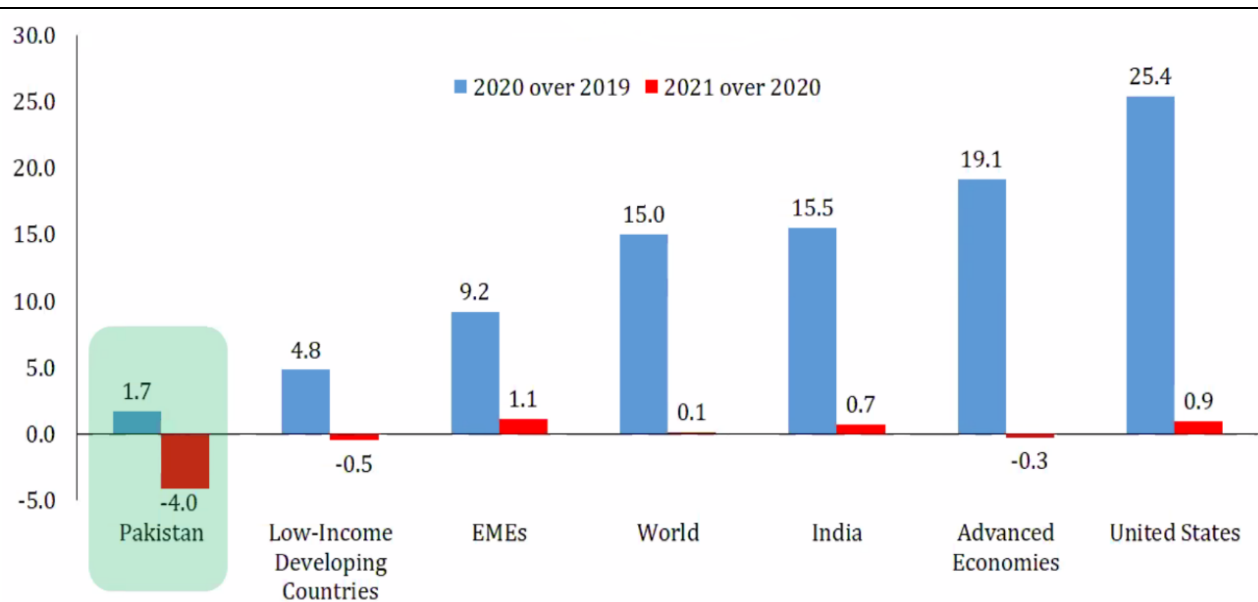
Source: SBP, Foundation Research, September 2021

Fig 2: Output Gap is expected to turn into positive by the end of FY22



Source: SBP, Foundation Research, September 2021

Fig 3: Pakistan’s debt to GDP reduced during COVID times



Source: SBP, IMF, Foundation Research, September 2021

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