

PAKISTAN



Pakistan Strategy

Momentum hinges on political coherence

Ease in commodity prices to bring some respite

Elevated current account deficit, increasing inflation and stalled IMF program amid heightened political noise would keep the upside of the market in check. Increased current account deficit has put significant pressure on foreign exchange reserves amid high commodity prices and debt repayments. Increasing local demand due to subsidy on oil and electricity prices for providing relief to the masses in heightened political environment has further aggravated the situation. However, cooling off of commodity prices due to extension in China lockdown and peaceful resolution of Russia Ukraine war along with clarity on the political setup would uplift investor sentiment.

Uncertainty to remain due to heightened political noise

Strength and unity showed by opposition parties during the last month resulted in vote of no confidence against the Prime Minister. Irrespective of the outcome of no confidence vote, it would be difficult for the ruling set up to take actions and continue with reforms needed to secure external position and bring fiscal house in order amid increasing political pressure from public, already facing brunt of inflationary pressures. PTI, the ruling party, holds 155 seats in the lower house while coalition of some of the key allies with the opposition have put the majority of government in doubt.

Liquidity at low of 21 months during Mar'22

Heightened political noise and elevated commodity has caused the index to remain flat during the month. Above mentioned factors have resulted KSE-100 index to post a mere return of 1.1% (-2.6% in US\$ term) during the month of Mar'22. Notably, Rupee depreciated by ~3.6% on MoM basis. Average Daily Turnover (ADTO) has significantly reduced to a low of 21 months of ~Rs6.3bn, down 14% MoM, along with deterioration of 10% MoM in traded volume to ~209mn. Moreover, settlement increased by 158bps MoM to 59.8% in Mar'22.

Technology and Food sectors rebound in Mar'22

Technology sector outperform with return of 7.7% in Mar'22, reducing YTD loss to ~11.0%. Food, Chemical, Fertilizer and Cement followed with return of 6.7%, 3.7%, 3.0% and 0.4% respectively. On the other hand, OMCs remained the worst performing sector with negative return of 6.2% in Mar'22. E&P, Automobile, Banks, Textile and Power followed with return of 3.9%, 3.6%, 3.1%, 2.8% and 0.9%, respectively.

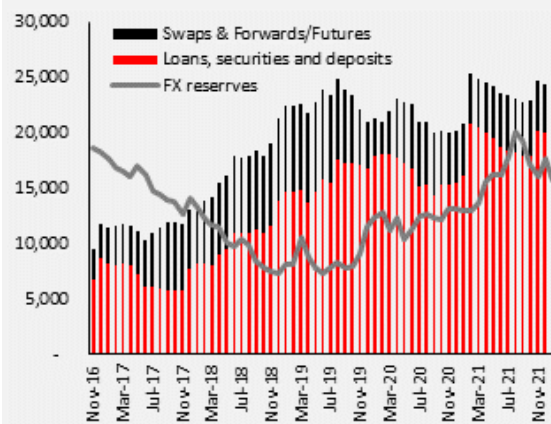
Banks and Individuals among liquidity providers

On deterioration of external position amid political uncertainty Foreigners remained sellers with worth of US\$23.7mn. Mutual Funds followed by selling US\$9.1mn during the month. Individual, Banks and Others have cumulatively enhanced their exposure by ~US\$30.4mn during the month of Mar'22. Banks have bought stocks worth of US\$15.1mn followed by US\$8.8mn and US\$6.4mn of Individuals and Others. Companies and Insurance remain muted with buying of a mere US\$2.6mn and US\$0.3mn.

Beneficiary of currency depreciation and ease in commodity prices to Outperform

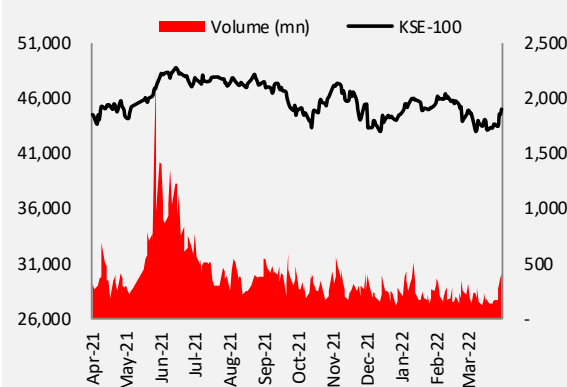
We look for stock that are beneficiary of currency depreciation and decrease in commodity prices. We are 'Overweight' on Banks, E&P, Fertilizer, Cement, Autos, OMCs, Consumers and Textile. We are 'Market Weight' on Power. While we are 'Under Weight' on Technology as we expect multiple to re-adjust according to sectors earning despite forecasting 26% earnings growth.

SBP FX reserves lower than outstanding 1yr liabilities



Source: SBP, Foundation Research, April 2022

Historical performance of KSE-100 Index



Source: PSX, Foundation Research, April 2022

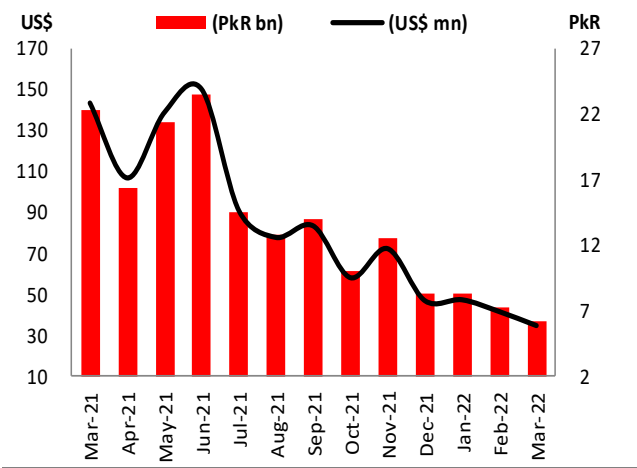
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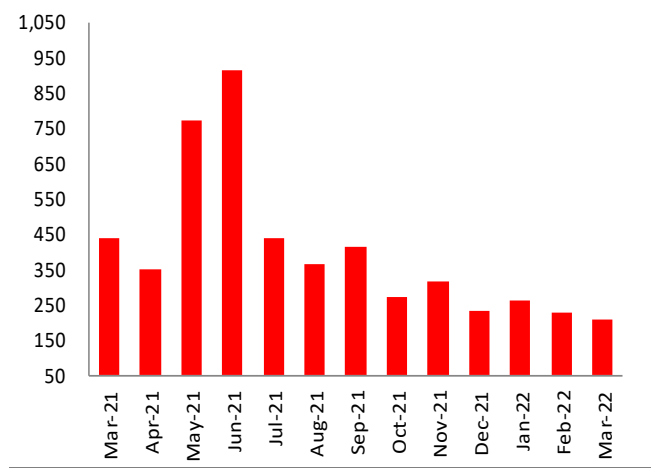
Foundation Securities (Pvt) Ltd.
Friday, April 1, 2022

Fig 1: Value traded at low of 29 months



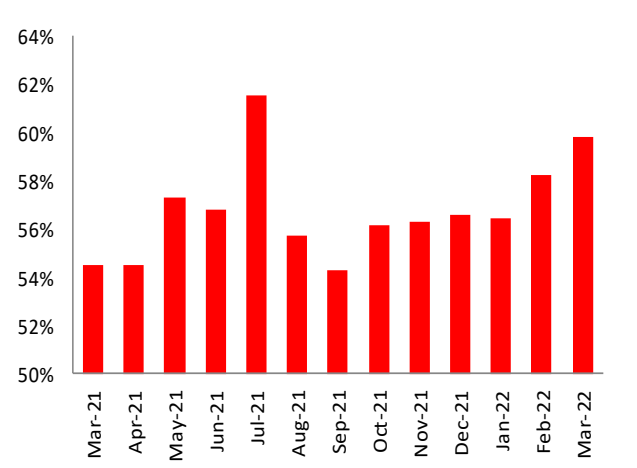
Source: PSX, Foundation Research, April 2022

Fig 2: ...with volumes at low of 21 months (mn shares)



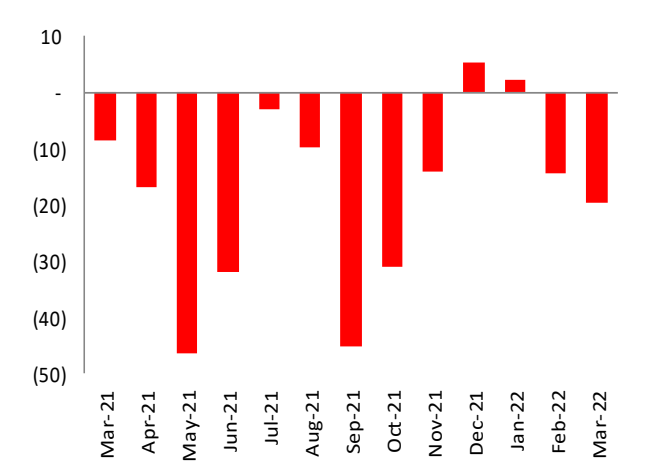
Source: PSX, Foundation Research, April 2022

Fig 3: ... but with improved settlement (%)



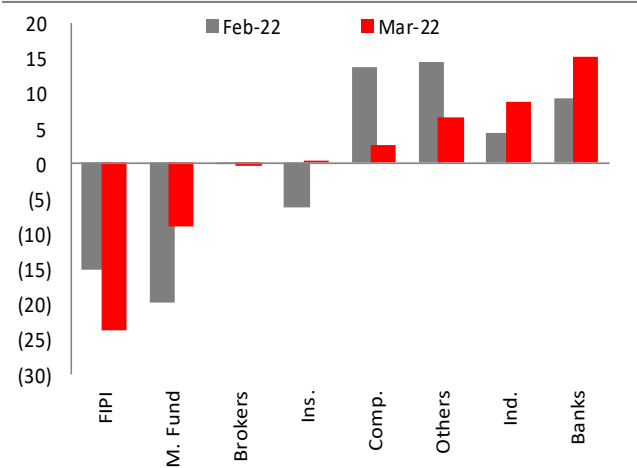
Source: NCCPL, Foundation Research, April 2022

Fig 4: ...foreigners remain net seller during the month (US\$ mn)



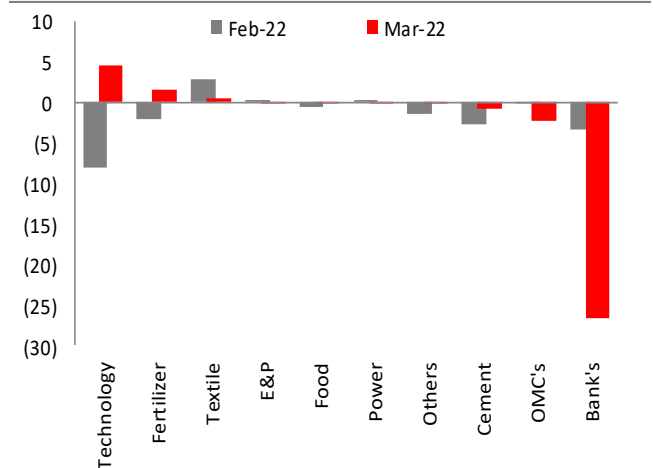
Source: NCCPL, Foundation Research, April 2022

Fig 5: Ind, Others & Banks absorb selling of FIIs & MF (US\$ mn)



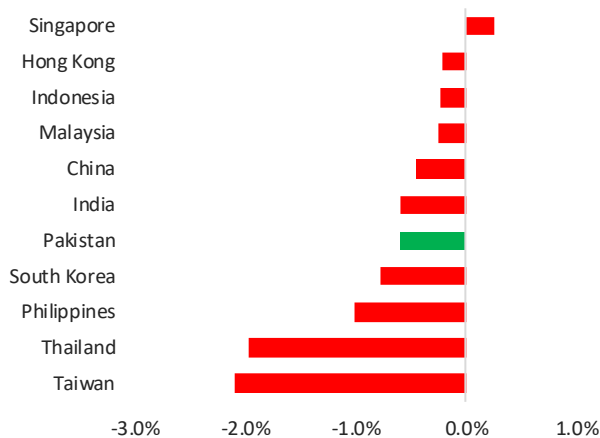
Source: NCCPL, Foundation Research, April 2022

Fig 6: FIIs' trimmed exposure in Banks and OMC (US\$ mn)



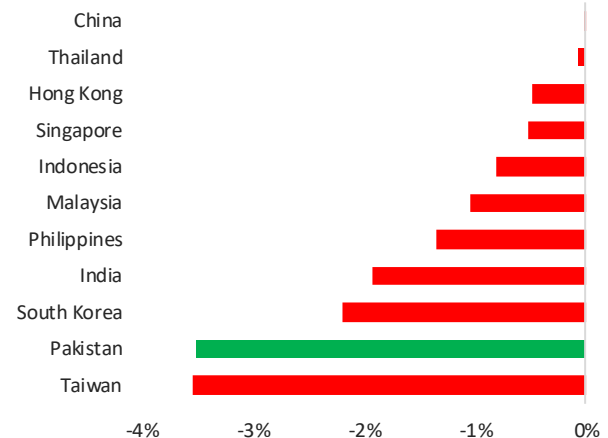
Source: NCCPL, Foundation Research, April 2022

Fig 13: Rupee weakens on MoM



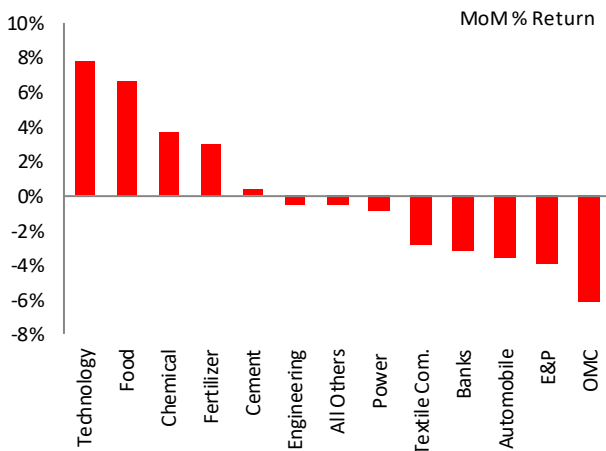
Source: Bloomberg, Foundation Research, April 2022

Fig 14: ...but PKR amongst best performers in YTD



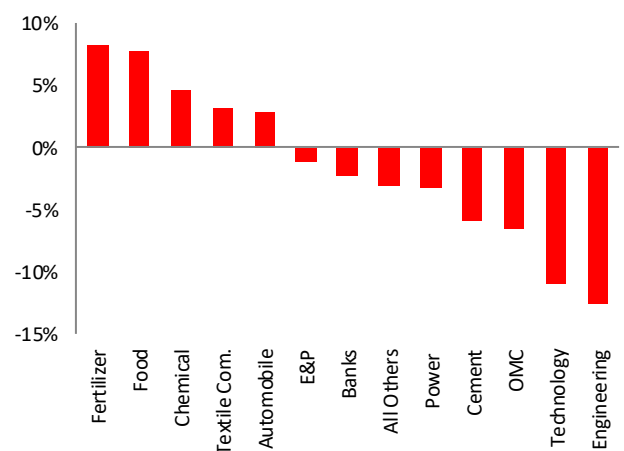
Source: Bloomberg, Foundation Research, April 2022

Fig 15: Technology and Food sectors rebound on MoM basis



Source: PSX, Foundation Research, April 2022

Fig 16: Technology among worst performing sectors on YTD basis



Source: PSX, Foundation Research, April 2022

Table 01: Regional Comparison

	PER (x)		P/BVS (x)		Dividend Yield (%)	
	2021	2022	2021	2022	2021	2022
Pakistan	4.64	4.18	0.77	0.77	7.93	8.01
Thailand	17.79	15.72	1.72	1.63	2.65	2.97
Taiwan	12.78	12.44	2.24	2.08	3.92	4.04
Singapore	12.87	11.65	1.05	1.00	4.21	4.52
Malaysia	14.77	13.82	1.50	1.43	4.03	4.22
Indonesia	6.01	4.12	0.50	0.39	2.16	2.46
China	10.41	8.63	1.30	1.18	3.19	3.48
Korea	11.10	9.59	1.06	0.98	1.84	2.04
Hong Kong	10.67	9.38	1.11	1.03	3.27	3.66
India	25.23	21.27	3.65	3.17	1.15	1.35
Philippines	17.20	14.35	1.66	1.58	1.71	1.90
Vietnam	13.87	10.86	2.34	2.00	1.17	1.34
Regional Avg.	13.88	11.98	1.65	1.50	2.66	2.91
Discount/Premium to Region	-66.6%	-65.1%	-53.3%	-48.6%	5.3	5.1

Source: Bloomberg, Foundation Research, April 2022

Table 02: Trading activity summary during the month (US\$mn)

Gross Activity	FIPI	M. Fund	Banks	Brokers	Ind.	Ins.	Comp.	Others
Buy	98.3	59.7	59.7	202.3	724.9	13.3	59.5	17.9
Sell	(121.9)	(68.8)	(44.5)	(202.7)	(716.1)	(13.0)	(56.9)	(11.5)
Net	(23.7)	(9.1)	15.1	(0.4)	8.8	0.3	2.6	6.4
Sector wise net position								
Bank's	(26.6)	5.4	8.3	0.2	4.5	2.1	4.5	1.6
E&P	(0.0)	2.7	0.3	1.8	(3.5)	(2.5)	1.3	(0.0)
Cement	(0.8)	(0.4)	2.6	2.7	(2.1)	1.1	(3.3)	0.3
Fertilizer	1.6	(1.7)	(6.1)	(3.7)	4.0	1.4	3.1	1.5
Power	(0.2)	(1.3)	1.6	(0.2)	(0.5)	(0.1)	0.6	0.1
OMC's	(2.4)	(4.8)	2.2	0.7	4.9	(1.1)	0.8	(0.4)
Food	(0.1)	(0.3)	0.1	2.6	(1.6)	(1.4)	0.8	(0.0)
Technology	4.5	(4.2)	3.7	(1.8)	2.2	1.1	(5.4)	0.1
Textile	0.6	(0.2)	1.3	(0.8)	(0.2)	(0.1)	(0.4)	(0.1)
Others	(0.2)	(4.2)	1.2	(1.9)	1.0	(0.2)	0.7	3.5
Total	(23.7)	(9.1)	15.1	(0.4)	8.8	0.3	2.6	6.4

Source: PSX, Foundation Research, April 2022

Table 03: Trading activity summary during the year (US\$mn)

Gross Activity	FIPI	M. Fund	Banks	Brokers	Ind.	Ins.	Comp.	Others
Buy	287.4	919.1	391.1	3,390.4	14,479.5	296.4	863.6	139.4
Sell	(308.5)	(926.5)	(426.7)	(3,402.7)	(14,361.7)	(339.2)	(833.3)	(112.7)
Net	(21.2)	(7.4)	(35.6)	(12.3)	117.8	(42.7)	30.3	26.7
Sector wise net position								
Bank's	(30.4)	(3.9)	0.4	(1.3)	35.4	(47.4)	(3.6)	35.1
E&P	(0.9)	(7.9)	3.6	5.2	20.5	(3.0)	12.8	0.7
Cement	(4.8)	29.4	(7.8)	2.1	(11.0)	(33.4)	(6.3)	(5.7)
Fertilizer	(1.7)	(14.4)	(7.1)	(5.2)	65.5	(5.1)	(27.4)	2.0
Power	0.5	(2.8)	(13.2)	2.5	21.1	(2.6)	(3.8)	3.0
OMC's	(4.1)	1.4	(0.2)	3.6	8.8	0.5	(3.8)	(6.2)
Food	(1.1)	(5.6)	(0.3)	5.9	10.3	1.3	(7.9)	(0.2)
Technology	15.8	(5.1)	(2.2)	(4.6)	(19.4)	14.9	(1.0)	3.0
Textile	3.6	2.8	(3.1)	(1.8)	(4.0)	4.0	8.8	(0.8)
Others	1.9	(1.3)	(5.6)	(18.7)	(9.3)	28.2	62.5	(4.1)
Total	(21.2)	(7.4)	(35.6)	(12.3)	117.8	(42.7)	30.3	26.7

Source: PSX, Foundation Research, April 2022

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.