

Market Strategy

Jul'22: Market down by 3.3%

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AHL Research

D: +92 21 32462589

UAN: +92 21 111 245 111, Ext: 322

F: +92 21 32420742

E: ahl-research@arifhabibltd.com



ASIAMONEY

Best Securities House: 2022
Best Investment Bank: 2022



Best Broker in Pakistan



Best Corporate & Investment Bank:
2020



Top 25 Companies



Best Brokerage House of the
Year 2021



Corporate Finance House of the
Year: 2021



Best Economic Research House
of the Year: 2021



Best Equity Research
Analyst: 2021

PSX Performance July 2022

Index slipped 1,390 points MoM

The KSE-100 index witnessed a decline of 1,390 points / 3.3% MoM (USD based return of -17.3%) during Jul'22 to close at 40,150 points.

Primary culprit behind this dismal performance has been the free fall in the Pak Rupee (highest MoM decline to PKR 239/USD from PKR 205/USD at the close of last month), which makes future inflationary reading more susceptible to an adverse upsurge. As economic conditions tailspin, domestic businesses appear anxious over rising cost push inflation, whereby major sectors remain wary of the ability to completely pass on the impact in the backdrop of compressing domestic demand.

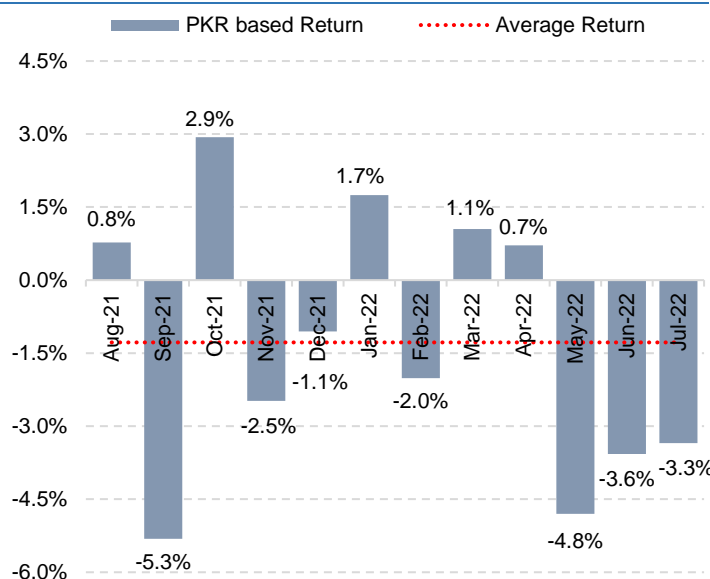
Albeit, the benchmark bourse took a sigh of relief as the government reached a staff level agreement with the IMF by mid-month, paving the way for disbursement of USD 1.2bn (subject to approval of the IMF's Executive Board).

However, shortly after, political clouds once again took a toll on the market with the Supreme Court ruling out CM Punjab in favour of the opposition's candidate. We do highlight that the slowdown in market activity is primarily owed to investors anxiously awaiting the release of the IMF tranche as two more credit rating agencies (Fitch and S&P Global), have downgraded Pakistan's outlook from neutral to negative, reflecting the rising risks to external financing.

Major News

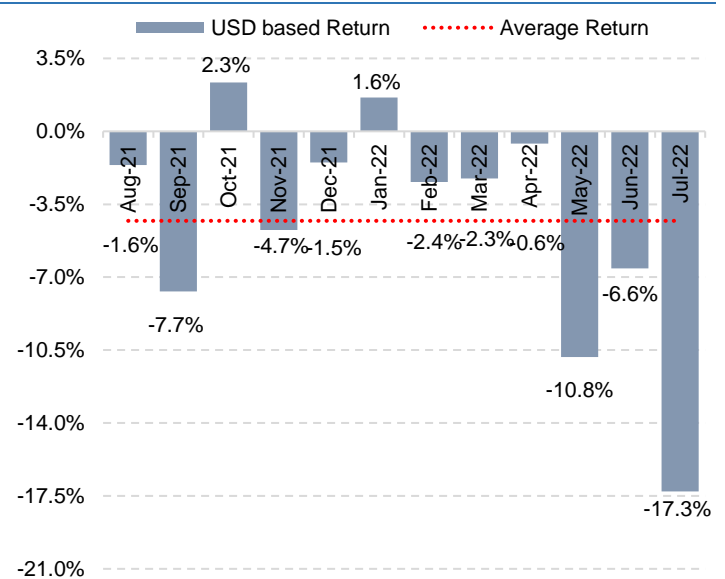
SBP extends deadline for implementing IFRS-9 to 1st Jan'23, Bank advances to private sector swell by 142%, PKR 9.42/unit tariff hike approved for KE, SBP raises markup rates on EFS, LTFF, May FCA: KE gets PKR 9.52/unit tariff hike, PIA inducts second Airbus 320 aircraft into fleet, FBR projects 9.5% tax-to-GDP ratio, FY22 FDI surges 2.6% to USD 1.868bn, Pakistan international bond yields surge, LSM expands 11.7% in 11MFY22, ICI Pakistan plans to acquire 75% stake in Lotte Chemical, Cabinet approves PKR 3.50/unit hike in power tariff, ECC decides to increase RLNG rate to \$9 per MMBTU for export-oriented sectors, and ECC approves revision in dealer margin of MS and HSD from PKR 4.90 per litre and PKR 4.13 per litre to PKR 7 per litre.

Fig: KSE-100 historical returns (PKR based)



Source (s): PSX, AHL Research

Fig: KSE100 historical returns (USD based)



Source (s): PSX, AHL Research

Economic Developments

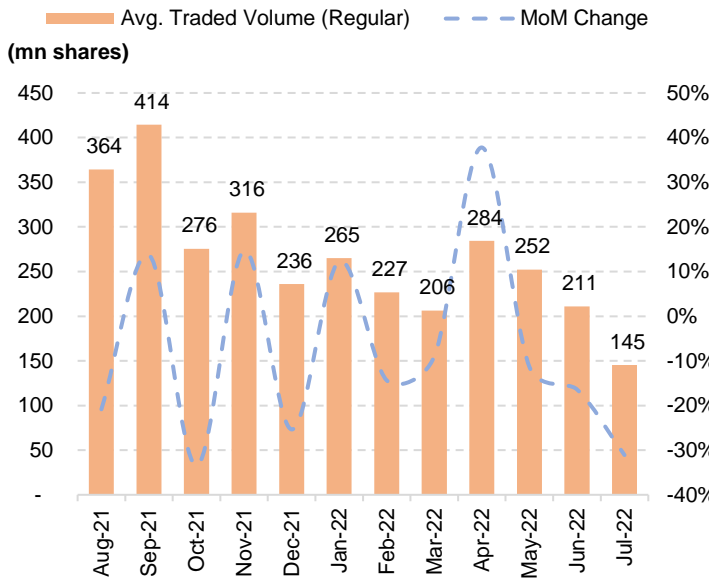
- Pakistan posted Current Account Deficit (CAD) of USD 2.3bn for the month of Jun'22 compared to deficit of USD 1.6bn during Jun'21, up 39% YoY. On YoY basis, the primary reason behind the deficit was 17% YoY increase in total imports to USD 8.4bn. However, total exports and remittances also increased by 23% YoY and 2% YoY during Jun'22, respectively. On MoM basis, CAD was significantly up 59% with a 30% jump recorded in Balance of Trade. With this, during FY22, country's deficit reached to USD 17.4bn compared with deficit of USD 2.8bn during same period last year. This huge jump in CAD was led by 44% YoY increase in trade deficit during the period. FY22's CAD is the highest since FY18 when current account posted a deficit of USD 19.2bn.
- Remittances by overseas Pakistanis registered a increase of 2% YoY to USD 2.8bn during Jun'22 compared to USD 2.7bn during Jun'21. On MoM basis, remittances marked an increase of 18%. During FY22, remittances went up by 6% YoY to USD 31.2bn. The country wise data reveals that during Jun'22, inflow from KSA, UAE, UK and USA amounted to USD 666mn (-3% YoY, +23% MoM), USD 495mn (-11% YoY, +14% MoM), USD 455mn (+19% YoY, +28% MoM) and USD 285mn (+16% YoY, +22% MoM), respectively.
- Net foreign direct investment settled at USD 271mn in Jun'22, up by 92% YoY and 92% MoM. This is the highest MoM net FDI inflow after Oct'20. During FY22, net FDI up by 3% YoY to USD 1,868mn compared to USD 1,821mn in FY21. China remained the largest investor with a net FDI of USD 531.6mn during FY22 compared with USD 751.6mn during the same period last year. United States was the second-largest investor with a net FDI of USD 249.6mn during FY22 compared with USD 166.4mn during the same period last year. During FY22, major investment was poured into the Power sector (USD 737.6mn) followed by Financial Business Sector (USD 405.3mn) and Oil and Gas Exploration (USD 195.3mn).
- Latest data released by PBS suggests that Large Scale Manufacturing Industries (LSMI) output has witnessed a decrease of 1.3% MoM during May'22. On YoY basis, LSMI showed improvement, increasing 21.4% during May'22. LSMI Index stood at 130.7 during May'22 compared to 107.6 SPLY. With the May'22 numbers, growth in LSMI during 11MFY22 clocked-in at 11.7% YoY. High-frequency indicators to the likes of sales of textile, food, tobacco, automobile, chemicals, apparel, and iron and steel continued to signal a robust growth on a YoY basis during 11M of FY22.

PSX Performance Jul 2022

Volume and Value went down during Jul'22

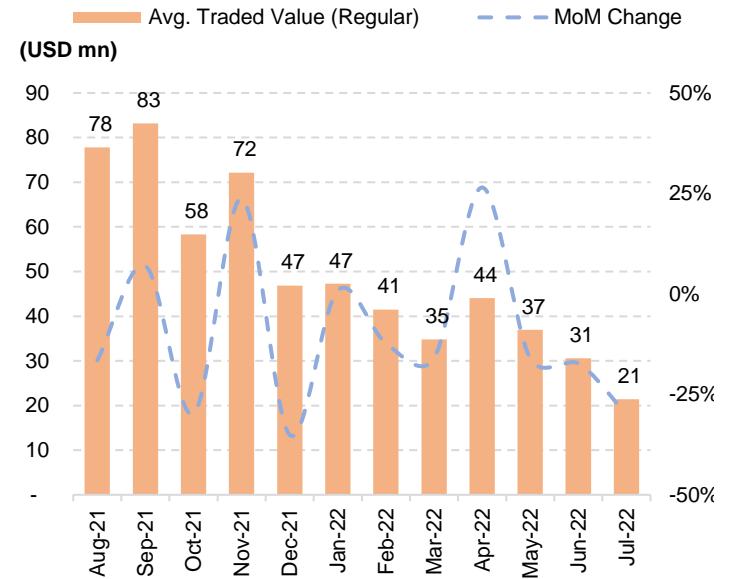
- Average traded volume and value during Jul'22 went down by 31% (145mn shares) and 30% (USD 21mn) MoM, respectively.

Fig: Traded Volume decreased by 31% during Jul'22



Source (s): PSX, AHL Research

Fig: Traded Value decreased by 30% during Jul'22

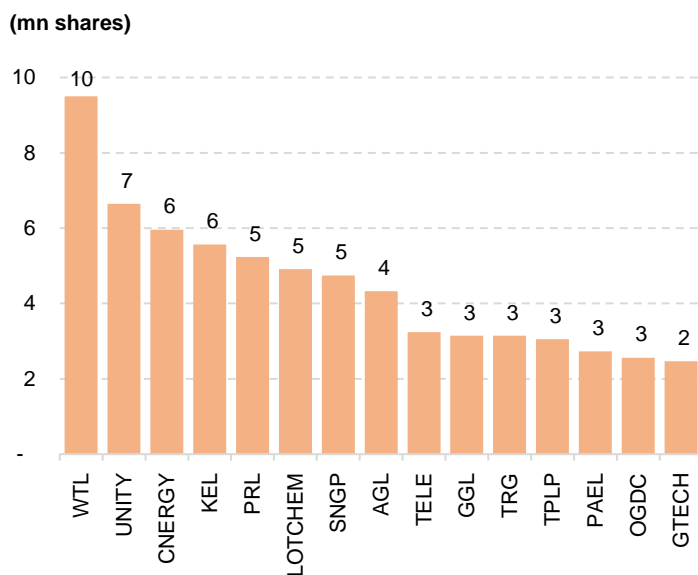


Source (s): PSX, AHL Research

PSX Performance Jul 2022

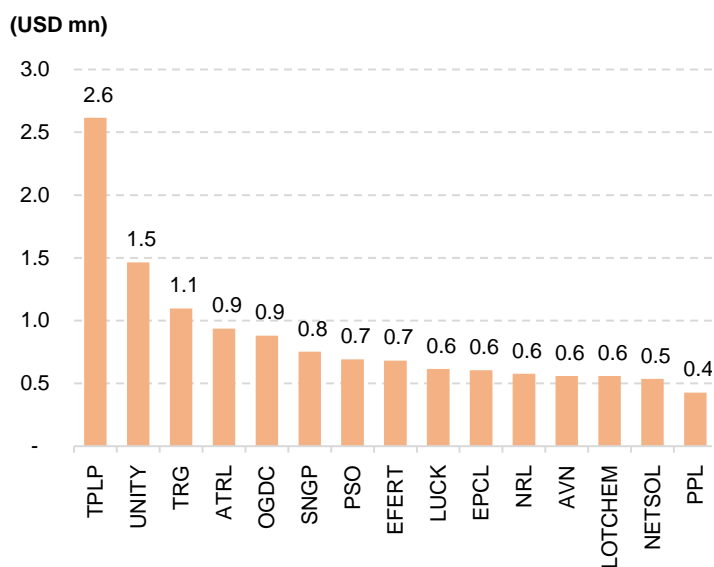
- During Jul'22, scrip-wise volumes were led by WTL (10mn shares), UNITY (7mn shares) and CNERGY (6mn shares).
- Scrip-wise value was led by TPLP (USD 2.6mn), UNITY (USD 1.5mn) and TRG (USD 1.1mn).
- On sector-wise basis, volumes were led by Technology (24mn shares), Chemical (17mn shares) and Refinery (14mn shares).
- Sector-wise value was led by Technology (USD 3.2mn), Refinery (USD 2.0mn) and OGMC's (USD 1.9mn).

Fig: Scrip wise volume leaders



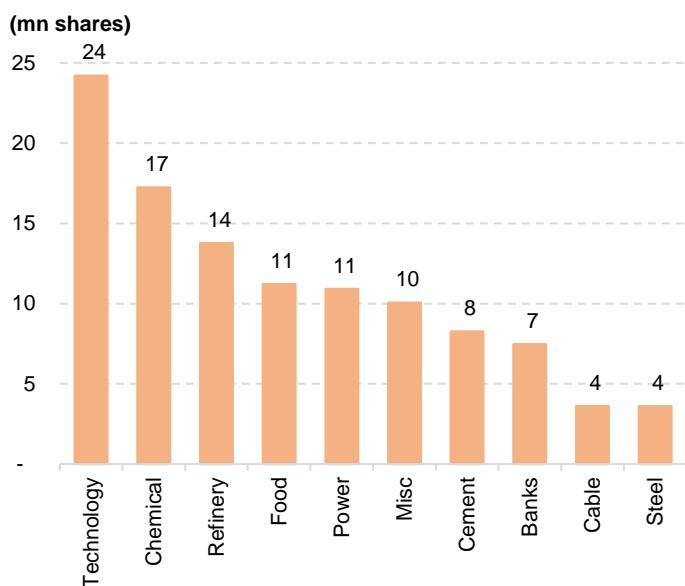
Source (s): PSX, AHL Research

Fig: Scrip wise value leaders



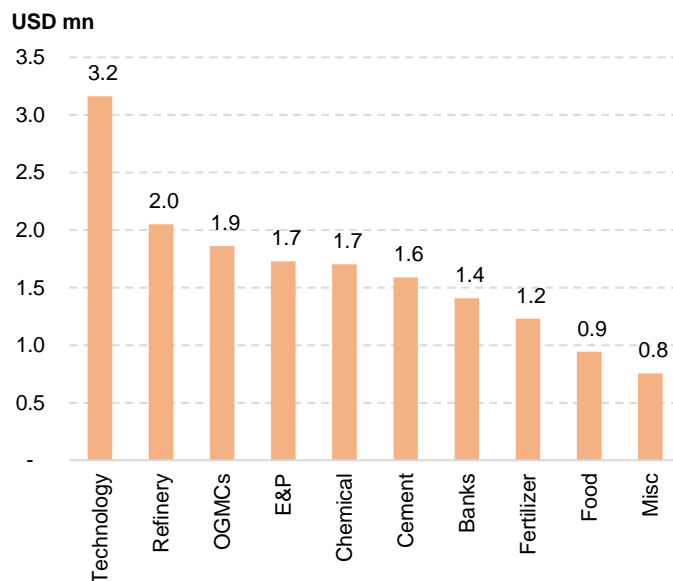
Source (s): PSX, AHL Research

Fig: Sector wise volume leaders



Source (s): PSX, AHL Research

Fig: Sector wise value leaders



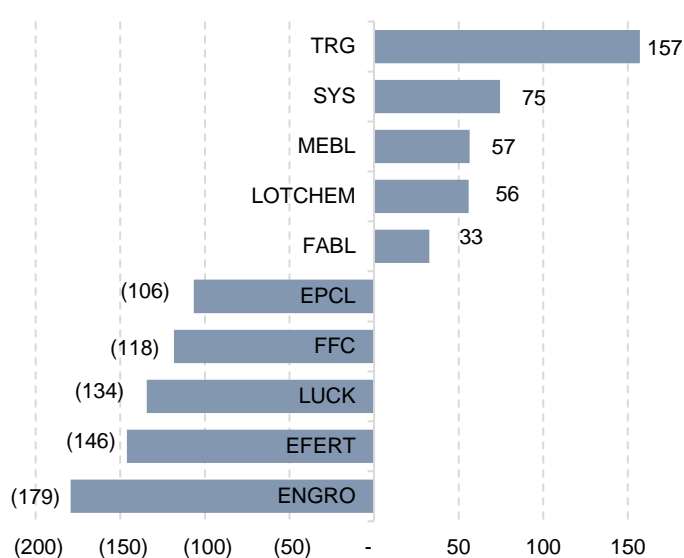
Source (s): PSX, AHL Research

PSX Performance Jul 2022

Index Contribution

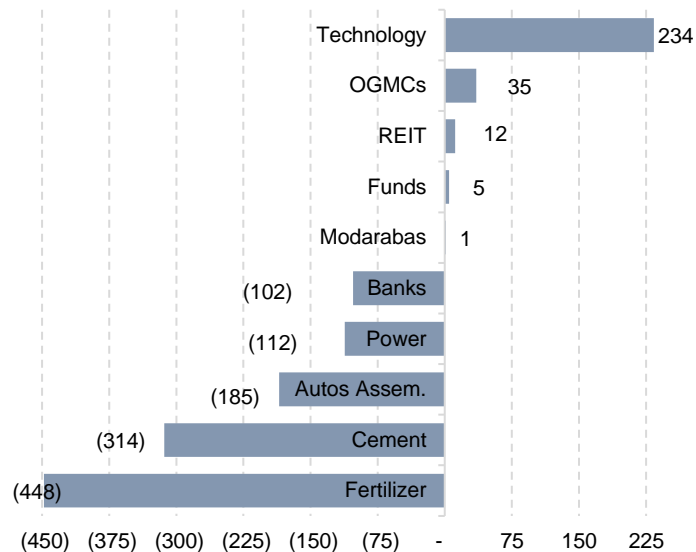
- Positive contributors during Jul'22 were Technology (234pts), followed by OGMC's (35pts). Whereas negative index contribution was led by Fertilizer (448pts), Cement (314pts), and Autos (185pts).
- Scrip-wise positive contributions were led by TRG (157pts), SYS (75pts), MEBL (57pts), LOTCHEM (56pts) and FABL (33pts).
- Meanwhile scrip-wise negative contributors during the month were i) ENGRO (179pts), ii) EFERT (146pts), LUCK (134pts), FFC (118pts) and EPCL (106pts).

Fig: Company wise top index contributors (Jul'22)



Source (s): PSX, AHL Research

Fig: Sector wise top index contributors (Jul'22)



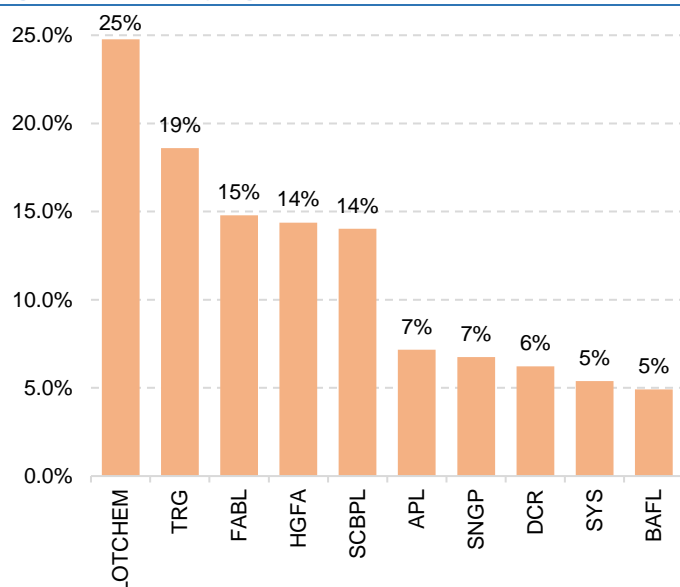
Source (s): PSX, AHL Research

PSX Performance Jul 2022

Major Gainers and Losers

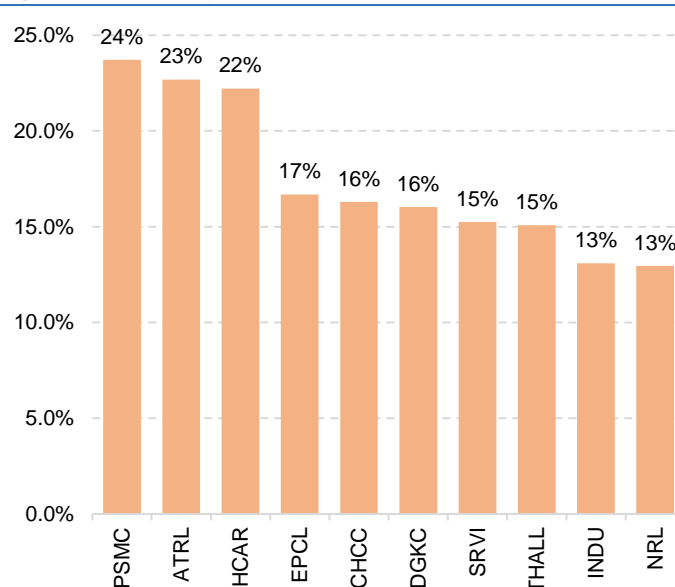
- Scrip-wise performance chart during the month was led by LOTCHEM, TRG, FABL, HGFA and SCBPL, each posting positive return of 25%, 19%, 15%, 14%, and 14% respectively. On the flip-side, PSMC, ATRL, HCAR, EPCL and CHCC posted the negative returns (24%, 23%, 22%, 17% and 16% respectively).
- In terms of sectors, Mutual Funds was the best performing sector posting a return of 14% followed by Technology (8%), Real Estate (6%) and Modaraba (3%). Negative returns were led by Leather (15%), Automobile Parts (15%), Refinery (15%), Automobile Assemblers (12%), Textile Weaving (10%), Cement (10%) and Transport (9%).

Fig: Scrip wise major gainers (KSE-100)



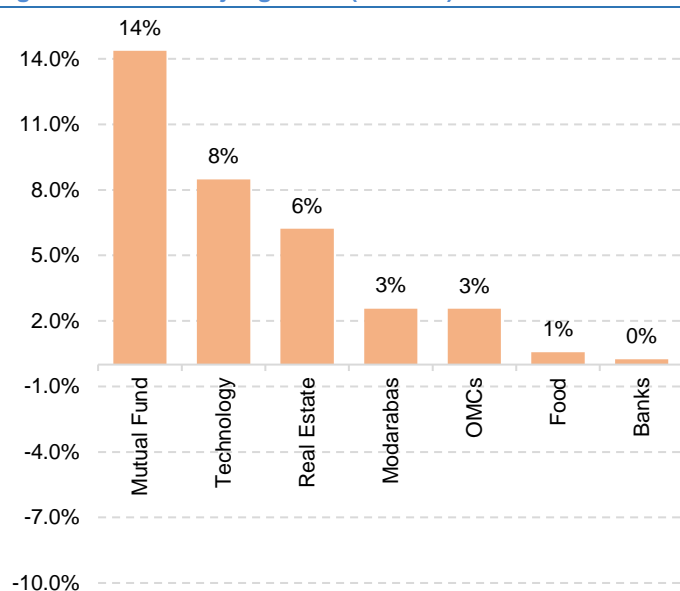
Source (s): PSX, AHL Research

Fig: Scrip wise major losers (KSE-100)



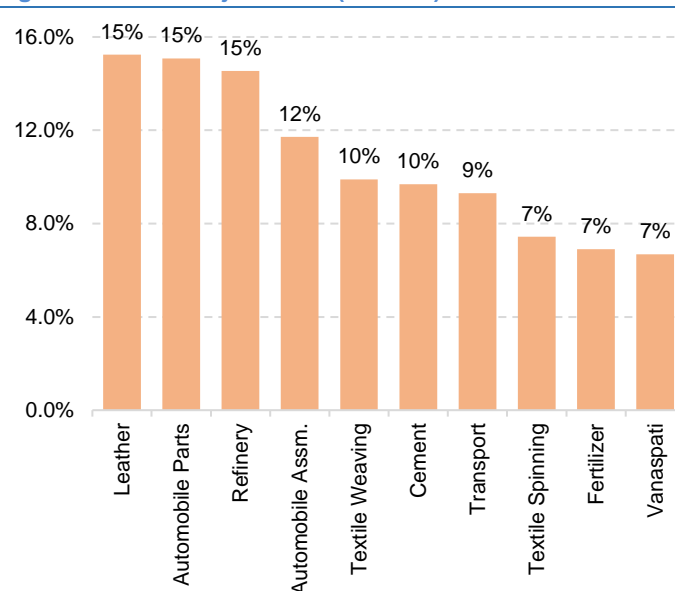
Source (s): PSX, AHL Research

Fig: Sector wise major gainers (KSE100)



Source (s): PSX, AHL Research

Fig: Sector wise major losers (KSE100)



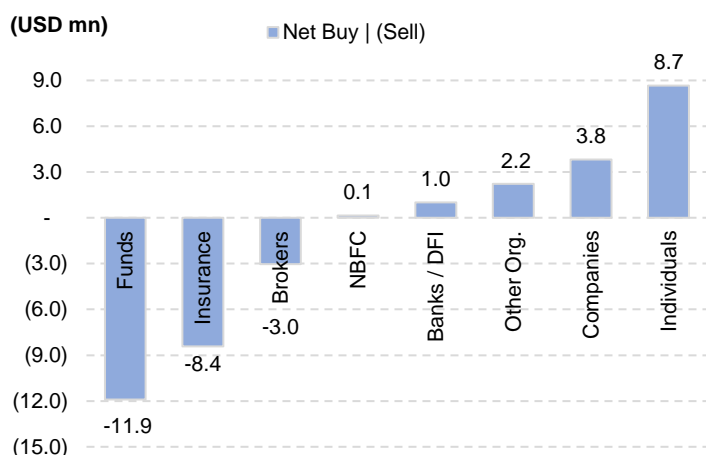
Source (s): PSX, AHL Research

PSX Performance Jul 2022

Regional Portfolio Investment

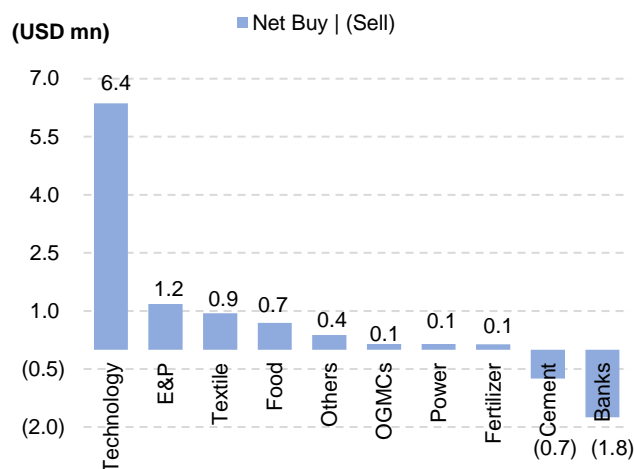
- Buying was witnessed in the Asia-pacific region after several months during Jul'22 led by major inflows in i) Japan (USD 3,675mn) owed to rebound in major stock markets and accumulation of growth stocks led by strong earnings posted by shipping companies, ii) South Korea (USD 1,363mn) amid a bear market rally across the board as investors get used to news of rising inflation and slowdown in the global economy, and iii) India (USD 651mn) given improved earnings, decline in international commodities and on bets of a less aggressive monetary policy stance by the US FED. Whereas net inflows at the domestic bourse arrived at USD 7.5mn. Buying was primarily seen in i) Technology (USD 6.4mn), ii) E&P's (USD 1.2mn), iii) Textile (USD 0.9mn), and iv) Food (USD 0.7mn). Whereas selling was witnessed in i) Banks (USD 1.8mn), and ii) Cement (USD 0.7mn).

Fig: Local investors portfolio investment during Jul'22



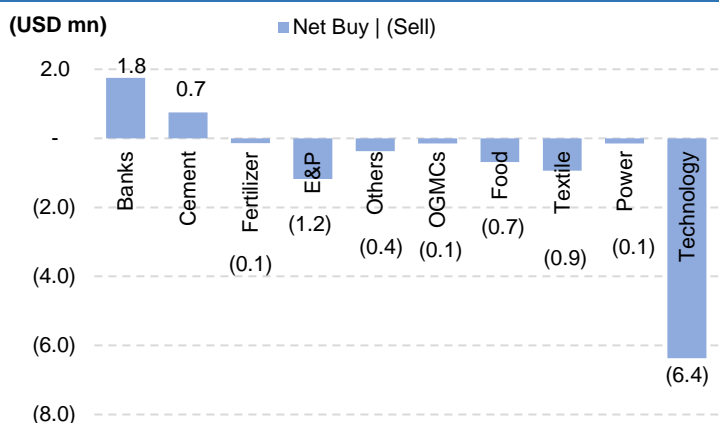
Source (s): NCCPL, AHL Research

Fig: Sector wise FIPI during Jul'22



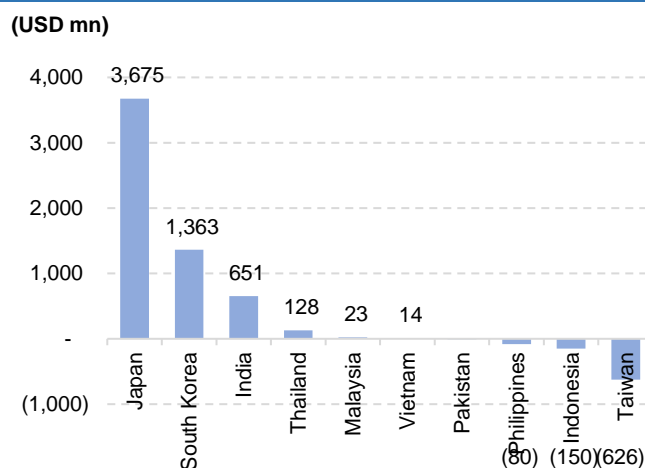
Source (s): NCCPL, AHL Research

Fig: Sector wise LIPI during Jul'22



Source (s): NCCPL, AHL Research

Fig: Regional Portfolio Investment during Jul'22



Source (s): Bloomberg, NCCPL, AHL Research

PSX Performance Jul 2022

Outlook and Recommendation

The government continues to face chronic macro-economic stability challenges and the problems, it appears, will continue to pile on unless the IMF's Executive Board disburses the USD 1.2bn tranche, which should open up other avenues of financing for Pakistan.

For the time being, key concerns remain depleting reserves, free fall in the Pak Rupee, high inflation, and potential erosion in corporate profitability. Therefore, the equity market will stage a comeback once the materialization of the disbursement becomes more evident, the PKR posts some recovery and consistency is seen in policy making.

In the longer run though, solutions should be sought to address the economic quagmire the country finds itself in every few years.

The KSE-100 is currently trading at a PER of 4.1x (2022) compared to Asia Pac regional average of 12.2x while offering a dividend yield of ~9.6% versus ~2.9% offered by the region. Our preferred stocks are OGDC, PPL, MARI, MCB, FABL, MEBL, BAFL, LUCK, MLCF, FCCL, ENGRO, FFC, HUBC, PSO, HUMNL and SNGP.

PSX Performance Jul 2022

World Indices Performance

Exhibit: World's Major Stock Market Performance (USD based return, Jul'22)

| Sr# | Index | Country | Index | Return (%) | Sr# | Index | Country | Index | Return (%) |
|-----|----------------|--------------|---------|------------|-----------|---------------------|-----------------|---------------|---------------|
| 1 | MERVAL Index | Argentina | 122,528 | 30.0 | 39 | DAX Index | Germany | 13,484 | 3.2 |
| 2 | NSEASI Index | Kenya | 141 | 12.0 | 40 | BUX Index | Hungary | 41,805 | 3.1 |
| 3 | NDX Index | USA | 12,948 | 11.8 | 41 | CSEALL Index | Sri Lanka | 7,731 | 2.9 |
| 4 | OBXP Index | Norway | 585 | 10.4 | 42 | FTSEMB Index | Italy | 22,405 | 2.9 |
| 5 | MSM30 Index | Oman | 4,532 | 9.9 | 43 | TUSISE Index | Tunisia | 7,732 | 2.2 |
| 6 | OMX Index | Sweden | 2,033 | 9.9 | 44 | LUXXX Index | Luxembourg | 1,493 | 2.0 |
| 7 | AS51 Index | Australia | 6,945 | 9.2 | 45 | FBMKLCI Index | Malaysia | 1,492 | 1.9 |
| 8 | IPSA Index | Chile | 5,259 | 9.1 | 46 | PCOMP Index | Philippines | 6,316 | 1.5 |
| 9 | AEX Index | Netherland | 729 | 9.1 | 47 | EGX30 Index | Egypt | 9,369 | 0.9 |
| 10 | NKY Index | Japan | 27,802 | 8.8 | 48 | MEXBOL Index | Mexico | 48,144 | 0.5 |
| 11 | SENSEX Index | India | 57,570 | 8.2 | 49 | BEL20 Index | Belgium | 3,797 | 0.4 |
| 12 | NZSE Index | New Zealand | 1,824 | 8.0 | 50 | VNINDEX Index | Vietnam | 1,206 | 0.3 |
| 13 | SPX Index | USA | 4,130 | 8.0 | 51 | SBITOP Index | Slovenia | 1,141 | (0.0) |
| 14 | KFX Index | Denmark | 1,815 | 7.6 | 52 | PX Index | Czech Republic | 1,234 | (0.2) |
| 15 | DSM Index | Qatar | 13,122 | 7.5 | 53 | XU100 Index | Turkey | 2,592 | (0.8) |
| 16 | KZKAK Index | Kazakhstan | 2,954 | 7.4 | 54 | PSI20 Index | Portugal | 6,123 | (0.8) |
| 17 | IBOV Index | Brazil | 103,165 | 6.8 | 55 | BET Index | Romania | 12,460 | (1.0) |
| 18 | CAC Index | France | 6,449 | 6.6 | 56 | VILSE Index | Lithuania | 900 | (1.1) |
| 19 | KOSPI Index | South Korea | 2,452 | 5.8 | 57 | WIG20 Index | Poland | 1,721 | (1.2) |
| 20 | ISEQ Index | Ireland | 6,809 | 5.6 | 58 | RIGSE Index | Latvia | 1,139 | (2.1) |
| 21 | INDU Index | USA | 32,845 | 5.6 | 59 | BELEX15 Index | Serbia | 836 | (2.2) |
| 22 | SX5E Index | Europe | 3,708 | 5.4 | 60 | IBEX Index | Spain | 8,156 | (2.2) |
| 23 | SASEIDX Index | Saudi Arabia | 12,155 | 5.4 | 61 | TALSE Index | Estonia | 1,768 | (3.1) |
| 24 | ICEXI Index | Iceland | 2,409 | 5.1 | 62 | SET Index | Thailand | 1,576 | (3.2) |
| 25 | SPTSX Index | Canada | 19,693 | 4.9 | 63 | SOFIX Index | Bulgaria | 600 | (3.6) |
| 26 | FSSTI Index | Singapore | 3,212 | 4.9 | 64 | CRO Index | Croatia | 1,969 | (3.8) |
| 27 | JOSMGNFF Index | Jordan | 2,593 | 4.8 | 65 | SEMDEX Index | Mauritius | 2,011 | (3.9) |
| 28 | UKX Index | UK | 7,423 | 4.6 | 66 | BLOM Index | Lebanon | 1,383 | (4.1) |
| 29 | SMI Index | Switzerland | 11,146 | 4.5 | 67 | NGSEINDX Index | Nigeria | 50,370 | (4.1) |
| 30 | HEX Index | Finland | 10,975 | 4.4 | 68 | GGSECI Index | Ghana | 2,519 | (5.9) |
| 31 | DFMGI Index | Dubai | 3,338 | 4.3 | 69 | SHSZ300 Index | China | 4,170 | (7.2) |
| 32 | TWSE Index | Taiwan | 15,000 | 4.1 | 70 | DSEX Index | Bangladesh | 5,980.5 | (7.6) |
| 33 | ATX Index | Austria | 3,028 | 3.7 | 71 | HSI Index | Hong Kong | 20,157 | (7.8) |
| 34 | BHSEASI Index | Bahrain | 1,906 | 3.6 | 72 | IMOEX Index | Russia | 2,214 | (9.5) |
| 35 | MSETOP Index | Mongolia | 34,723 | 3.6 | 73 | RTSI\$ Index | Russia | 1,129 | (11.5) |
| 36 | ASE Index | Greece | 851 | 3.5 | 74 | KSE100 Index | Pakistan | 40,150 | (17.3) |
| 37 | ADSMI Index | UAE | 9,663 | 3.4 | 75 | PFTS Index | Ukraine | 519 | (19.3) |
| 38 | JALSH Index | South Africa | 68,934 | 3.4 | | | | | |

Source (s): Bloomberg, AHL Research

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Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Dec 2022 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 Discount 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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In order to avoid any conflict of interest, we hereby disclosed that;

Arif Habib Limited (AHL) has shareholding in OGDC, PPL, NBP, AKBL, MLCF, FCCL, PSO, UNITY and SNGP.